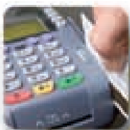
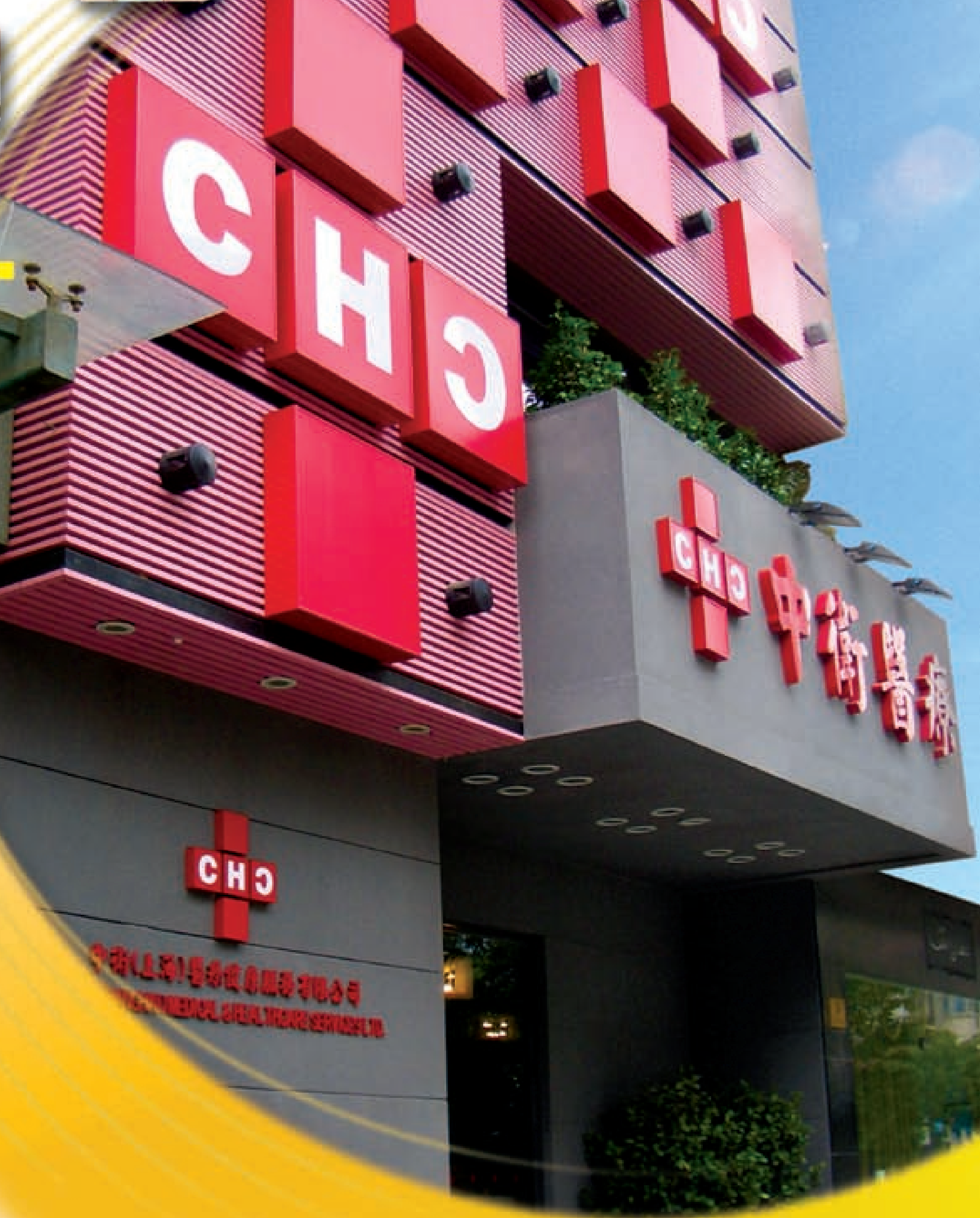
中國衛生控股有限公司

China HealthCare Holdings Limited

(Incorporated in Bermuda with limited liability)
(Stock Code: 673)

Annual Report 2010





Contents

Corporate Information

DIRECTORS

EXECUTIVE DIRECTORS

Dr. Li Zhong Yuan *(Chairman)*
Mr. Zhou Bao Yi

NON-EXECUTIVE DIRECTOR

Mr. Martin Treffer

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Yan Shi Yun
Mr. Mu Xiang Ming
Mr. Jiang Bo

COMPANY SECRETARY

Mr. Tsui Siu Hung Raymond

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit C, 19/F
Entertainment Building
30 Queen's Road
Central
Hong Kong

PRINCIPAL BANKERS

The Hong Kong and Shanghai Banking Corporation
Harcourt Road Branch
Ground Floor, Hutchison House
10 Harcourt Road
Central
Hong Kong

AUDITOR

SHINEWING (HK) CPA Limited
43/F., The Lee Gardens
33 Hysan Avenue
Causeway Bay, Hong Kong

LEGAL ADVISERS

Morrison & Foester
Solicitors and International Lawyers
21/F, Entertainment Building
30 Queen's Road Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

COMPANY WEBSITE

www.chinahealthcareltd.com

STOCK CODE

673

Chairman's Statement

Dear Shareholders,

During the past financial year, the Group's operating activities have continued to focus on creating customer value of "better access, better communication and better connectivity" through a network-based and IT-enabled connectivity platform that is scalable and cost-effective for the China's consumer services markets. The Group made steady progress in the expansion of its consumer services.

The Group's main revenue generating operation, B-to-C consumer services, continues to maintain its #1 market share in mobile top-up distribution in Shanghai through a network of almost 8,000 POS-enabled retail outlets throughout Shanghai. A strategic growth initiative in consumer services entails strategic expansion into payments sector and operational expansion in products; channels and geography, and the operation has managed to make substantive progress in each of those targeted expansions, and the operation has also managed to attract a number of talents in B-to-C consumer services on board to upgrade human resources. The secured financial and human resources and their ongoing integration continue to pave the way for the operation's transformation and growth.

During the past financial year, the Group's listing entity China HealthCare Holdings Ltd. ("CHC" or "HoldCo"), as the Group's ultimate holding company, doesn't have sufficient cash on hand and has been in default to its obligations to repay two convertible bonds (the "CB") of outstanding principals of about US$5.5 million and HK$11 million respectively, and due to cross default, the redeemable convertible preference shares of outstanding principal US$15 million has also become redeemable on demand. The HoldCo considers that a solution to its solvency problem would necessarily require injection of substantial external resources, and in practice the Group has to bring in viable asset(s) and/or project(s) to enable a restructuring of its defaulted financial obligations. As such the directors have been making every best effort in working with relevant stakeholders to bring viable asset(s) and/or project(s) into the Group to solve its solvency problem.

Chairman's Statement

On behalf of the directors, I would like to express my appreciation to the staffs of the Group for their dedication, commitment and contribution to the Group's overall performance and results despite HoldCo's financial distress. With the support of our shareholders; stakeholders and partners, I am confident that the Group will be able to work out a solution to HoldCo's solvency problem and with such a major difficulty overcome, and with the dedication of our staff and the commitment of our management team, I am also confident that the Group will be able to continue to grow by creating significant value to consumers of our services, which in turn shall generate substantial shareholder value.

Yours sincerely,

Dr. Li Zhong Yuan
Chairman

28 July 2010

Management Discussion and Analysis

RESULTS

For the year ended 31 March 2010, the Group reported a turnover of approximately HK$2,776.4 million, representing a decrease of 3.3% as compared to HK$2,870.7 million for the previous financial year. The Group's net loss from ordinary activities attributable to shareholders for the year was approximately HK$89.7 million as compared to profit of approximately HK$18.8 million (restated) for the previous financial year. Basic loss per share for the year was HK$0.38 (2009: earnings per share HK$0.08 (restated)).

FINAL DIVIDEND

The Directors do not recommend the payment of any final dividend to the shareholders (2009: Nil).

BUSINESS OPERATION

During the past financial year, the Group's business operation continued to be principally engaged in provision of consumer oriented services that enable the procurement of better access, better communication and better connectivity in China.

China is undergoing mega growth of underlying consumption demands arising from China's on-going grand-scale urbanization, rising per capita income, increasing intra-China/inbound China/China outbound mobility, and ageing demographics. The Group's vision is to become a consumer oriented service provider to embrace the mega trend in China, and to materialize such a vision the Group is building and scaling up its head-count based consumer services and products.

Review of the Group's business operations

Almost all of the Group's revenue comes from its B-to-C consumer services operation. The operation's business model is oriented around scale; growth; cash flow and outlets of distribution and settlement. The operation remains the #1 distributor of mobile prepaid cards in Shanghai; has enabled its POS terminals onto almost 8,000 distribution outlets (convenience stores and others) in Shanghai – the most comprehensive network there; and continues to maintain an estimated #1 market share for China Mobile top-up cards in Shanghai. Since the beginning of the financial year, the Group has been implementing a strategic growth initiative to position the business operation to move into payments sector and has taken systematic steps to identify and remove constrains in management; capital; expertise and technology.

Management Discussion and Analysis

The operation has been drawing upon both global perspective and local expertise to form and implement its road map of the strategic growth initiative. The initiative entails expansion of geography; products and channels, i.e. expanding into viable coastal regions beyond Shanghai in geography; viable transaction processing products and services beyond mobile top-up in products; and viable channels beyond existing ones in Shanghai to increase economy of scale. In expanding geography and channels, the operation has established its subsidiary in Shandong, the 2nd largest provincial mobile market in China, and such a subsidiary has secured relevant regulatory approvals and vendor rectifications for mobile top-up and is "acquiring" a large number of quality distribution outlets there; in expanding products into payments sector, the operation has upgraded its IT platform to connect with China UnionPay and enabled its POS payment terminals into public channels (such as convenience stores and pharmacies etc.) and households to process payments of credit card bills etc. Also of critical importance, in taking measures to remove constraints in human resources to the initiative, the operation has had continued success in upgrading its critical human resources of senior and middle managers in marketing; technology and channel management.

Directors would like to report that the operation of the Group's consumer services business has had a decrease of about 3.6% in terms of overall revenues as compared with the same period in 2009.

In Group's other business operations, i.e. healthcare services focusing on travel-related emergency medical assistance and distribution of medical devices/consumables, directors would like to report that the operations have had a decrease of 9.9% and an increase of 166.4% respectively in terms of revenues as compared with those in the same period in 2009.

Management Discussion and Analysis

Review of the Group's financial distress

During the past financial year, the Group's listing entity China HealthCare Holdings Ltd. ("CHC" or "HoldCo"), as the Group's ultimate holding company, doesn't have sufficient cash on hand and has been in default to its obligations to repay two convertible bonds (the "CBs") of outstanding principals of about US$5.5 million and HK$11 million respectively as of the date, and due to cross default, the redeemable convertible preference shares of outstanding principal US$15 million has also become redeemable on demand.

Having experimented with various ways and means to find a solution to the HoldCo's solvency problem over the past financial year, the directors consider that a solution would necessarily require injection of substantial external resources, and in practice the Group has to bring in viable asset(s) and/or project(s) to enable a restructuring of its defaulted financial obligations. As such the directors have been making every best effort in working with relevant stakeholders to bring viable asset(s) and/or project(s) into the Group to solve its solvency problem.

Facing the financial distress above and as the Group's operations are service oriented and human capital heavy, directors have been making every best effort in alleviating the ongoing negative impacts of the financial distress and sustaining the underlying operations.

ACQUISITION OF SUBSIDIARIES

(a) On 20 December 2009, the Group acquired 100% equity interests in Nanjing Wangchi from an independent third party for a consideration of RMB3,000,000 (equivalent to HK$3,405,000). At 31 March 2010, the Group only paid RMB900,000 (equivalent to HK$1,011,000) to the vendor, however, an extension agreement was signed between the Group and the vendor in December 2009, that mutually agreed to extend the payment date of the balance consideration amount to RMB2,100,000 (equivalent to HK$2,394,000) no late than 30 June 2010. The Group has paid the remaining consideration to the vendor on 28 June 2010.

(b) On 24 March 2010, Novogain Holdings Limited, a wholly-owned subsidiary of the Company, entered into the an agreement with GeneHarbor Holdings Limited, an independent third party, to acquire the entire equity interest in GeneHarbor Technologies Inc. for a total consideration of US$73.0 million (equivalent to approximately HK$565.89 million). The consideration shall be satisfied by (i) US$2.5 million (equivalent to approximately HK$19.38 million) in cash; (ii) US$6.0 million (equivalent to approximately HK$46.51 million) by the issue of the Tranche A Convertible Notes; and (iii) US$64.5 million (equivalent to approximately HK$500.00 million) by the issue of the Tranche B Convertible Notes. Details of the transaction were set out in the Company's announcement dated 8 April 2010. The acquisition was terminated on 14 July 2010.

Management Discussion and Analysis

LIQUIDITY AND CAPITAL RESOURCES

During the year under review, the Group's cash and cash equivalents amounted to approximately HK$174.1 million as at 31 March 2010, where about HK$153.9 million is in its subsidiary Harvest Network Ltd. ("Harvest") and its use is restricted for Harvest's working capital and other purpose only.

The Group's total borrowings as at 31 March 2010 amounted to HK$263.2 million, all of which were represented by convertible bonds, preference shares and secured bank loans.

As at 31 March 2010, the Group's secured bank loans were repayable within one year and were denominated in RMB. The secured bank loans were charged at a fixed interest rate of 4.617%.

On this basis, the gearing ratio is calculated at (2.33) (2009: (4.18) (restated)), based on an amount of shareholders' equity of HK$(112,759,000) (2009: HK$(36,852,000)).

CONTINGENT LIABILITIES

As at 31 March 2010, there were no contingent liabilities of the Group.

CHARGE ON GROUP'S ASSETS

As at 31 March 2010, there was no charge on the Group's assets.

EMPLOYEES AND REMUNERATION POLICY

As at 31 March 2010, the Group employed 160 (2009: 128) staff members. Total staff cost including Directors' emoluments was HK$15.9 million as compared to HK$12.5 million for the previous year.

The Group continues to review remuneration packages of employees with reference to the level and composition of pay, the general market condition and individual performance. Staff benefits include contributions to the Mandatory Provident Fund Schemes and a discretionary bonus payment which is linked to the profit performance of the Group and individual performance. A share option scheme has also been established for employees of the Group.

Management Discussion and Analysis

FUTURE PROSPECT

While the Group's HoldCo is facing financial distress which has ongoing negative impacts on the Group's operating activities, the Group is making every best effort, and at the same time looking forward to the support and cooperation of our shareholders; stakeholders and business partners, to work out a solution to HoldCo's solvency problem.

From a macro perspective of 20-year time horizon on China's consumer markets by McKinsey, the Chinese one defines world's largest growth opportunity in consumer services. Pending overcoming the Group's immediate financial distress of its HoldCo, the Group's business operations and associated head-count based consumer services and products are on track to embrace the mega trend.

Directors and Senior Management

EXECUTIVE DIRECTORS

Dr. Li Zhong Yuan, aged 48 and Chairman of the Board, has many years of experience in entrepreneurship; principal investment; finance; and academia. Dr. Li held senior positions in cross border structured products/ asset swap/repackaging with major international investment banks, including Bankers Trust, Salomon Brothers, and IBJ Asia and was a Director of Rabobank International before pursuing his own principal investment and entrepreneurial operation in early 2000. Dr. Li received his Ph.D. in Mathematics with best dissertation for the year honor from the University of Michigan and subsequently worked as a C.L.E. Moore Instructor in Mathematics at the MIT. Dr. Li is a member of the International Advisory Board of the UCSD Graduate School of International Relations and Pacific Studies, and also served on boards of a number of public and private companies.

Mr. Zhou Bao Yi, aged 48 and Executive Director, is charge of the Group's finance; accounting and administration for the Group. Mr. Zhou has many years of administrative experience in organizational management and was the Chief Financial Officer; President and Chairman in Northeastern Electric Transmission and Transformation Equipment Group Ltd. – a large state-owned enterprise and a production base of transmission and transformation equipment of the PRC. Mr. Zhou received his Master degree in economics from People's University, PRC; Doctoral degree in Management from Liaoning University and is a certified Senior Accountant in the PRC.

NON-EXECUTIVE DIRECTOR

Mr. Martin Treffer, aged 45 and non-executive director, has extensive experience in investment and financial areas. Mr. Treffer holds a master's degree in Banking and Economics from KV Zurich Business School, Switzerland. He has worked for several major international investment management and financial organizations. He is a founding member and principal partner of 2trade Group Ltd., an independent money management company in Switzerland.

Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Mu Xiangming, aged 54 and independent non-executive director, is an experienced international lawyer. Mr. Mu is currently the managing partner of Shanghai Ming & Yuan Law Firm, a law firm with its principal office in Shanghai and affiliated offices in the U.S. and Japan and was a member of the Shanghai Municipal Government Foreign Economic Trade Committee and a practicing lawyer in a U.S. solicitors firm for four years. He received his L.L.B. degree from Fudan University Law School in Shanghai, China and L.L.M. degree from University of Oregon Law School in the United States.

Dr. Yan Shi Yun, aged 70 and independent non-executive director, is a highly distinguished TCM doctor. Currently, Dr. Yan is the Deputy Chairman of Academic Evaluation Department of State Council Academic Committee, Deputy Chairman of China Medical High Education Committee and Deputy Chairman of Chinese Traditional Medicine High Education Committee. He is also the Chairman of Shanghai TCM Development Expert Panel, and Deputy Chairman of Shanghai Chinese Traditional Medicine Association. He serves as a member of the State Pharmacopoeia Committee, Shanghai Academic Committee, and China Academy of Sciences for Chinese Traditional Medicine. Dr. Yan is an Honorary Professor of TCM Department of The University of Hong Kong and Honorary Visiting Professor of The Chinese University of Hong Kong. Previously he was the President of Shanghai University of TCM and Director of the TCM Institute of Shanghai University of TCM from 1985 to 2005.

Mr. Jiang Bo, aged 52 and independent non-executive director, is an experienced auditor and a CPA with more than 10 years of IPO project experiences with state-owned enterprises in China and overseas. He is a well respected member of the Chinese Institute of Certified Public Accountant (CICPA), Chinese Institute of Certified Public Valuer (CICPV) and the Liaoning Assets Appraisal Specialists Committee. Currently, Mr. Jiang is the General Manager of Liaoning Reanda Certified Public Accountant Firm. Previously, he was the Director of The Economy and Culture Promoting Association of Liaoning Province in China. He serves on the board of Brilliance China Automotive Holding Limited as an independent non-executive director.

SENIOR MANAGEMENT

Ms. Yu, Amy, aged 36 and Chief Operating Officer and Vice President of the Group, is in charge of the Group's daily operating activities and has the overall responsibility for the Group's healthcare service business as General Manager of the Group's subsidiary Beijing Universal Medical Assistance Co., Ltd.. Ms. Yu is a successful entrepreneur who built up her own financial; accounting; operational and managerial consulting business from scratch, now with offices both in Shanghai and Beijing and client coverage throughout China including Inner Mongolia Mengniu Dairy Industry (Group) Co., Ltd. etc. Ms. Yu has extensive experience in service sales and marketing in China and proven track record in business management and is an official financial consultant for China Association for Small and Medium Enterprises. Ms. Yu has a BS in accounting from Shanghai University of Finance and Economy and is a CPA.

Directors and Senior Management

Ms. Zhang, Jane, aged 48 and Vice President, is in charge of the operation of the Group's subsidiary Shanghai Harvest Network Technology Co., Ltd. as its General Manager, and has extensive operating and managerial experiences of 25 years with Chinese financial services industry and wide range of contacts in Chinese government and business community. Previously Ms. Zhang was Assistant President of CITIC Bank, Shanghai. Ms. Zhang has a BA from University of Foreign Trade and Economy and MBA from Macau University of Science and Technology.

Mr. Ren, Jun, aged 44 and Vice President of Diagnostic Products, is in charge of the Group's distribution business in diagnostic devices; equipments and reagents. Mr. Ren possesses more than 14 years of experience in distributing reagents, diagnostic devices and equipments into hospitals throughout China, and was previously a star salesman at Beckman Coulter for the Greater China region for several years before moving into his own entrepreneurial pursue for 5 years. Mr. Ren has a BS in biomedicine from Shanghai University of Science and Technology.

Mr. Yoo, Fred, aged 50 and Vice President of International Operations, is in charge of international operations for Group's healthcare service business, and has more than 15 years of senior management experiences with global operation strategy, operations management and customer services at leading world organizations across insurance, financial services, and telecommunications. Prior to CHC, Mr. Yoo assumed senior management positions at AIG/AIU, SWIFT and Telcordia responsible for global operations and customer services. Mr. Yoo worked at worldwide/regional headquarters in US, Europe and Asia. Mr. Yoo received MBA from Columbia University, M.S in Computer Science from Brown University and B.S. in Mathematics from Harvey Mudd College. He is a certified project manager.

COMPANY SECRETARY

Mr. Tsui Siu Hung Raymond, aged 34, is the secretary of the Company. Mr. Tsui received his Bachelor of Business Administration in Accounting from the Chinese University of Hong Kong. He has over 10 years of experience in finance, consulting, accounting and auditing. He is fellow members of the Association of Chartered Certified Accountants and the Hong Kong Institute of the Certified Public Accountants.

Report of the Directors

The directors submitting herewith their annual report and the audited financial statements for the year ended 31 March 2010.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Its Subsidiaries are principally engaged in provision of B-to-C consumer services in E-distribution of mobile pre-charge etc., procurement of B-to-B healthcare services and sales of medical devices and consumable.

RESULTS

The results of the Group for the year ended 31 March 2010 are set out in the consolidated statement of comprehensive income on page 29.

PROPERTY, PLANT AND EQUIPMENT

Details of movement in the property, plant and equipment of the Group during the year are set out in note 17 to the financial statements.

CONVERTIBLE BONDS

Details of the convertible bonds are set out in the note 32 to the financial statements.

REDEEMABLE CONVERTIBLE CUMULATIVE PREFERENCE SHARES

Details of the redeemable convertible cumulative preference shares are set out in the note 33 to the financial statements.

SHARE CAPITAL

Details of movement in the Company's share capital during the year are set out in note 36 to the financial statements.

RESERVES

Movements in the reserves of the Company and of the Group during the year are set out in note 37(b) to the financial statements and consolidated statement of changes in equity on page 33 respectively.

Report of the Directors

DISTRIBUTABLE RESERVES

As at 31 March 2010, the Company had no reserves available for cash distribution and/or distribution in specie, as calculated in accordance with the Companies Act 1981.

DIRECTORS AND THEIR SERVICE CONTRACTS

The directors of the Company ("Directors") during the year and up to the date of this report:

EXECUTIVE DIRECTORS

Dr. Li Zhong Yuan
Mr. Lee Jong Dae (resigned on 25 August 2009)
Mr. Zhou Bao Yi

NON-EXECUTIVE DIRECTOR

Mr. Martin Treffer

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Yan Shi Yun
Mr. Mu Xiang Ming
Mr. Jiang Bo

The biographical details of the directors of the Company and senior management of the Group are set out on pages 10 to 12.

In accordance with the Company's Bye-law 87, Dr. Li Zhong Yuan and Mr. Zhou Bao Yi will retire from the board by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Dr. Li Zhong Yuan and Mr. Zhou Bao Yi have not been appointed for any fixed term but shall be subject to retirement and re-election at the annual general meeting of the Company in accordance with the current Bye-law.

All Non-Executive Directors and Independent Non-Executive Directors are not appointed for a specific term.

Report of the Directors

Dr. Li Zhong Yuan has a service contract with the Company for a term of two years commencing from 1 September 2009. Save as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation, other than normal statutory obligations.

DIRECTORS' INTERESTS IN CONTRACT OF SIGNIFICANCE

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES AND SHARE OPTIONS

As at 31 March 2010, the interests and short positions of the Directors/Chief Executives in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Part XV of the Securities and Futures Ordinance (the "SFO")) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions in which the directors were deemed or taken to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") to be notified to the Company and the Stock Exchange, were as follows:

Name of director/chief executive	Company/ associated corporation	Capacity	Interests in shares (other than pursuant to equity derivatives)	Interests in underlying shares pursuant to equity derivatives	Total interests in shares/ underlying shares	Percentage of shares and underlying shares to issued shares at 31 March 2010
Dr. Li Zhong Yuan	The Company	Corporate *(note 1)*	19,808,000	–	19,808,000	7.56%
		Personal	4,635,000	3,625,000	8,260,000	3.15%
Mr. Martin Treffer	The Company	Corporate *(note 2)*	1,295,000	–	1,295,000	0.49%
		Personal	250,000	900,000	1,150,000	0.44%
Mr. Mu Xiang Ming	The Company	Personal	–	210,000	210,000	0.08%

Report of the Directors

Notes:

1. These shares included 11,147,000 shares held through Pacific Annex Capital Limited and 8,661,000 shares held through Timenew Limited, both companies are wholly owned by Dr. Li Zhong Yuan.

2. These shares are held by 2Trade Group Limited which is beneficially owned by Mr. Martin Treffer as to 35%.

3. The underlying share of equity derivatives represent the shares issuable upon the exercise of share options granted to the directors/chief executives by the Company.

Save as disclosed above, none of directors of chief executive of the Company had any interest or short position in shares, debentures or underlying shares of the Company and its associated corporations which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or pursuant to section 352 of the SFO, to be recorded in the register referred therein; or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, and neither the Directors nor chief executive, nor any of their spouse or children under the age 18, had any right to subscribe for securities of the Company, or exercised any such right.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 31 March 2010, so far as is known to Directors, those persons other than Directors and chief executive of the Company, who had the interest or short positions in the shares or underlying shares of the Company which have been disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept by the Company under section 336 of the SFO, were as follows:

Name of Substantial Shareholders	Capacity	Interests in shares (other than pursuant to equity derivatives)	Interests in underlying shares pursuant to equity derivatives	Total interests in shares/ underlying shares	Percentage of shares and underlying shares to issued shares
China Healthcare Services Ltd.	Beneficial owner	17,541,000	–	17,541,000	6.69%
Orient Access International Inc.	Beneficial owner	17,300,000	–	17,300,000	6.60%
OZ Master Fund, Ltd. *(Note 1)*	Beneficial owner	–	47,356,068	47,356,068	18.07%
OZ Asia Master Fund, Ltd. *(Note 2)*	Beneficial owner	–	46,586,758	46,586,758	17.78%
OZ Management, L.L.C. *(Note 3)*	Interest of controlled corporations	–	100,344,827	100,344,827	38.30%
Och-Ziff Holding Corporation *(Note 4)*	Interest of controlled corporations	–	100,344,827	100,344,827	38.30%
Och-Ziff Capital Management Group L.L.C. *(Note 4)*	Interest of controlled corporations	–	100,344,827	100,344,827	38.30%
Mr. Daniel Saul Och *(Note 4)*	Interest of controlled corporations	–	100,344,827	100,344,827	38.30%
Geneharbor Holdings Limited *(Note 5)*	Beneficial owner	–	1,405,033,333	1,405,033,333	536.23%

Report of the Directors

Notes:

1. The underlying shares represent preference shares of the Company which entitle the holder thereof to convert for 47,356,068 fully paid Shares at an initial conversion price of HK$1.16 per Share (subject to adjustments).

2. The underlying shares represent preference shares of the Company which entitle the holder thereof to convert for 46,586,758 fully paid Shares at an initial conversion price of HK$1.16 per Share (subject to adjustments).

3. The 100,344,827 underlying shares of the Company held by OZ Management, L.L.C. through its controlled corporations include 47,356,068 underlying shares held by OZ Master Fund, Ltd., 46,586,758 underlying shares held by OZ Asia Master Fund, Ltd., 5,278,139 underlying shares held by OZ Global Special Investments Master Fund, L.P. and 1,123,862 underlying shares held by Fleet Maritime, Inc.

4. OZ Management, L.L.C. was wholly-owned by Och-Ziff Holding Corporation, which in turn was wholly-owned by Och-Ziff Capital Management Group L.L.C.. Mr. Daniel Saul Och owned 79.1% of Och-Ziff Capital Management Group L.L.C.. Therefore, each of Och-Ziff Holding Corporation, Och-Ziff Capital Management Group L.L.C. and Mr. Daniel Saul Och was deemed to be interested in the underlying shares of the Company held by OZ Management, L.L.C.

5. The underlying shares represent convertible notes of the Company which entitle the holder thereof to convert for 155,033,333 and 1,250,000,000 shares at an initial conversion price of HK$0.30 and HK$0.40 per share (subject to adjustments) respectively.

Report of the Directors

SHARE OPTION SCHEMES

There is no change in any terms of the share option schemes of the Company during the year ended 31 March 2010.

The following table discloses details of options outstanding under the Company's share option schemes and movements during the year:

	Option type	Outstanding at 1 April 2009	Granted	Exercised	Lapsed	Outstanding at 31 March 2010
Directors						
Dr. Li Zhong Yuan	A	25,000	–	–	–	25,000
	B	1,500,000	–	–	–	1,500,000
	C	2,100,000	–	–	–	2,100,000
Mr. Lee Jong Dae	B	1,500,000	–	–	(1,500,000)	–
	C	2,100,000	–	–	(2,100,000)	–
Mr. Martin Treffer	C	900,000	–	–	–	900,000
Mr. Mu Xiang Ming	C	210,000	–	–	–	210,000
Total Directors		8,335,000	–	–	(3,600,000)	4,735,000
Management and staffs	B	60,000	–	–	–	60,000
	C	270,000	–	–	–	270,000
Total Management and staffs		330,000	–	–	–	330,000
Advisors and consultants	B	4,144,000	–	–	–	4,144,000
	C	4,422,000	–	–	–	4,422,000
	D	99,000	–	–	–	99,000
Total advisors and consultants		8,665,000	–	–	–	8,665,000
Total		17,330,000	–	–	(3,600,000)	13,730,000

Option type	Date of grant	Exercisable Period	Exercise price *HK$*	Closing price immediately before the date of grant *HK$*
A	31 Aug 2001	31/8/2001-15/5/2011	8.60*	12.000*
B	2 Feb 2004	2/2/2004-7/4/2012	3.40	3.800
C	3 Mar 2005	3/3/2005-7/4/2012	2.325	2.325
D	20 June 2005	20/6/2005-7/4/2012	2.330	2.300

* The price has been adjusted for consolidation of the Company's shares.

Report of the Directors

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained the prescribed public float under the Listing Rules.

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 136 of the annual report.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-Laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders of the Company.

EVENTS AFTER THE BALANCE SHEET DATE

Details of the events after the balance sheet date of the Group are set out in note 46 to the financial statements.

MAJOR SUPPLIERS AND CUSTOMERS

The largest supplier and the five largest suppliers of the Group accounted for approximately 82% and 85.63%, respectively, of the Group's total purchases during the year.

The largest customer and the five largest customers of the Group accounted for approximately 16.67% and 42.20%, respectively, of the Group's total sales for the year.

None of the Directors or any of its associates or any shareholders (which to the knowledge of the Directors, owns more than 5% of the Company's issued share capital) has any interest in the Group's five largest suppliers or customers.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares during the year ended 31 March 2010.

Report of the Directors

DISCLOSURE UNDER CHAPTER 13 OF THE LISTING RULES

As at 31 March 2010, the Group had a loan of US$2.7 million (equivalent to HK$21,026,000) made to Multiline Digital Co. Ltd, an independent third party. Full impairment loss for the loan was made in prior years. Details of which are disclosed in note 25 to the financial statements.

AUDITORS

A resolution will be submitted to the annual general meeting of the Company to re-appoint the auditors, Messrs. SHINEWING (HK) CPA Limited.

On behalf of the Board

Zhou Bao Yi
Executive Director

Hong Kong, 28 July 2010

Corporate Governance Report

In the opinion of the board of directors of the Company (the "Board"), the Company has complied with the Code of Corporate Governance Practices (the "Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 March 2010 except for certain deviations disclosed herein.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by its directors. Having made specific enquiry, all directors have confirmed that they have fully complied with the required standard set out in the Model Code during the year.

BOARD OF DIRECTORS

The Board is responsible for the leadership and control of the Group and oversees the Group's businesses, strategic decisions and performance. The Board has delegated the day-to-day responsibility to the executive directors and senior management who perform their duties under the leadership of the Board.

The Board currently consists of two executive directors, one non-executive director and three Independent non-executive directors. One of our Independent non-executive directors has relevant financial management expertise required by the Listing Rules.

Corporate Governance Report

During the year, the Board held 10 meetings, the members of the Board and the attendance of each member are as follows:

Directors	Number of attendance
Executive directors	
Dr. Li Zhong Yuan	10/10
Mr. Lee Jong Dae (resigned on 25 August 2009)	1/3
Mr. Zhou Bao Yi	10/10
Non-executive director	
Mr. Martin Treffer	3/10
Independent non-executive directors	
Dr. Yan Shi Yun	5/10
Mr. Mu Xiang Ming	5/10
Mr. Jiang Bo	5/10

The Company has received annual confirmations of independence from independent non-executive directors and the Company considers that all of independent non-executive directors are independent.

Given the nature and business objective of the Company, the Board has a balance of skill and experience appropriate for the requirements of the business of the Company. The list of directors and their respective biographies are set out on pages 10 to 12 of this annual report respectively.

CHAIRMAN AND EXECUTIVE DIRECTORS

Dr. Li Zhong Yuan is the Chairman of the Board and an Executive Director of the Company, and Mr. Zhou Bao Yi is an Executive Director of the Company. The Chairman is responsible for providing leadership for the Board of Directors and ensuring that the Board of Directors works effectively. Mr. Zhou Bao Yi is responsible for the Group's overall business development, implementation and management.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Under A.4.1 of the Code, the independent non-executive directors should be appointed for a specific term, subject to re-election. Currently, none of the three Independent Non-executive Directors is appointed for a specific term, but are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's Bye-laws.

Corporate Governance Report

REMUNERATION COMMITTEE

The Company established its Remuneration Committee on 31 March 2007 with specific written terms of reference. The Remuneration Committee is responsible for making recommendations to the Board on, among other things, the Company's policy and structure for the remuneration of all directors and senior management of the Company and is delegated by the Board with the responsibility to determine on behalf of the Board the specific remuneration packages for all executive directors and senior management of the Company.

The Remuneration Committee comprises three independent non-executive directors, namely Mr. Mu Xiang Ming, Dr. Yan Shi Yun and Mr. Jiang Bo. The Remuneration Committee held two meetings during the year.

NOMINATION OF DIRECTORS

The Company has not established a Nomination Committee. The duties and functions of the Nomination Committee recommended in the Code are performed by the Board collectively with no director being involved in fixing his/her own terms of appointment and no Independent Non-executive Director being involved in assessing his/her own independence.

AUDITORS' REMUNERATION

The Company's external auditors are Messrs. SHINEWING (HK) CPA Limited. The audit fees of the Company for the year ended 31 March 2010 were approximate HK$0.65 million.

AUDIT COMMITTEE

The Group's Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed the auditing, internal controls and financial reporting matters including the review of the Group's audited results for the year ended 31 March 2010.

During the year, the Audit Committee held two meetings. Members of the Audit Committee and the attendance of each member are as follows:

Directors	Number of attendance
Independent Non-executive Directors	
Dr. Yan Shi Yun	2/2
Mr. Mu Xiang Ming	2/2
Mr. Jiang Bo	2/2

Corporate Governance Report

During the year, the Audit Committee has performed the following duties:

– reviewed with the management and the external auditors the audited financial statements for the year ended 31 March 2010 and the unaudited interim financial statements for the six months ended 30 September 2009, with recommendations to the Board for approval;

– reviewed reports on internal control system covering financial, operational, procedural compliance and risk management functions; and

– reviewed the compliance issues with the regulatory and statutory requirements.

The Audit Committee has reviewed with the management of the Company the accounting principles and practices adopted by the Group and the financial statements for the year ended 31 March 2010.

The Chairman of the Audit Committee, Mr. Jiang Bo, possesses relevant financial management expertise and meets the requirements of rule 3.21 of the Listing Rules.

ACCOUNTABILITY

The directors are responsible for the preparation of the accounts of the Group for the relevant accounting periods under applicable statutory and regulatory requirements which give true and fair view of the state of affairs, the results of operations and cash flows of the Group. In preparing the accounts for the six months ended 30 September 2009 and for the year ended 31 March 2010, the directors have adopted suitable accounting policies and applied them consistently. The accounts for the reporting year have been prepared on a going concern basis.

INTERNAL CONTROLS

The Board has, through the Audit Committee, conducted interim and annual review of the effectiveness of the internal control system of the Group covering the financial, operational, procedural compliance and risk management functions. The internal control system is designed to provide reasonable, but not absolute, assurance of no material misstatement or loss and to manage rather than eliminate risks of failure in operational systems and achievements of the Group's objectives.

Independent Auditor's Report

SHINEWING (HK) CPA Limited
43/F., The Lee Gardens
33 Hysan Avenue
Causeway Bay, Hong Kong

TO THE SHAREHOLDERS OF
CHINA HEALTHCARE HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

We were engaged to audit the consolidated financial statements of China Healthcare Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 29 to 135, which comprise the consolidated statement of financial position as at 31 March 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Except as described in the basis for disclaimer of opinion paragraphs, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

However, because of the matters described in the basis for disclaimer of opinion paragraphs, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Independent Auditor's Report

BASIS FOR DISCLAIMER OF OPINION

As explained in note 2 to the consolidated financial statements, as at 31 March 2010, the Group had net current liabilities of approximately HK$64,471,000 and net liabilities of approximately HK$21,818,000. Furthermore, the Group had bank balances of approximately HK$153,894,000 which are subject to restrictions imposed by the non-redeemable convertible preference shareholders of a subsidiary pursuant to the terms of the subscription agreement.

During the year ended 31 March 2010, the Group was unable to redeem the convertible bonds which had been due on 18 May 2009 ("CB1"). At 31 March 2010, the overdue principal and interest of CB1 were approximately HK$42,524,000 and HK$1,796,000 respectively. In addition, the Group has convertible bonds with original maturity date of 1 June 2011 ("CB3") and redeemable convertible cumulative preference shares with original maturity date of 28 July 2011 ("PS") with outstanding amounts as at 31 March 2010 of approximately HK$13,873,000 and HK$183,059,000 respectively. Such amounts have become repayable on demand due to cross default with the default on CB1 which had triggered the Company's obligation in early redemption of CB3 and PS.

The consolidated financial statements have been prepared on a going concern basis, the validity of which is dependent on the successful outcome of the Group's ongoing negotiations (the "Negotiations") with the convertible bonds holders, preference shareholders and prospective external resources providers to bring in viable assets and/or projects to restructure its defaulted financial obligations, and to solve the Group's solvency problem. Due to the uncertainty of the outcome of the Negotiations, we were unable to ascertain whether the assumptions made by the directors of the Company in preparing the consolidated financial statements on a going concern basis are proper and appropriate.

Should the Group be not able to continue its business as a going concern, adjustments would be necessary to reclassify all non-current assets and liabilities as current assets and liabilities, write down the value of assets to their recoverable amounts and to provide for further liabilities which may arise. The consolidated financial statements have not incorporated any of these adjustments. However, the uncertainty surrounding the outcome of the Negotiations raises significant doubt about the Company's ability to continue as a going concern and we have disclaimed our opinion.

Independent Auditor's Report

DISCLAIMER OF OPINION: DISCLAIMER ON VIEW GIVEN BY FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

Because of the significance of the fundamental uncertainty relating to the going concern basis, we do not express an opinion as to whether the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 March 2010 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Lo Wa Kei
Practising Certificate Number: P03427

Hong Kong
28 July 2010

Consolidated Statement of Comprehensive Income

(For the year ended 31 March 2010)

	Notes	2010 *HK$'000*	2009 *HK$'000* (Restated)
Revenue	*9*	**2,776,413**	2,870,719
Cost of sales		**(2,750,762)**	(2,844,481)
Gross profit		**25,651**	26,238
Other income	*10*	**2,564**	4,334
Distribution expenses		**(11,294)**	(9,007)
Administrative expenses		**(43,816)**	(35,503)
Other operating expenses		**(1,269)**	(49)
Finance costs	*11*	**(63,878)**	(15,625)
Loss on recalculation of liability component of redeemable convertible cumulative preference shares	*33*	**(18,194)**	–
Impairment loss recognised in respect of loan receivables		**–**	(18,909)
Impairment loss recognised in respect of prepayment for acquisition of non-current assets		**–**	(7,045)
Impairment loss recognised in respect of trade and other receivables		**(3,717)**	(466)
Gain on disposal of financial assets at fair value through profit or loss		**108**	–
Gain on disposal of subsidiaries	*41*	**2,533**	2,510
Gain on deemed disposal of a subsidiary	*42*	**56**	54,993
Fair value loss on financial assets at fair value through profit or loss		**–**	(67)
Fair value (loss) gain on derivative component of convertible bonds		**(6,040)**	8,711
Fair value gain on derivative component of redeemable convertible cumulative preference shares		**18,871**	23,449
Gain on repurchase of convertible bonds		**–**	1,470
(Loss) profit before tax		**(98,425)**	35,034
Income tax expense	*12*	**(386)**	(1,451)
(Loss) profit for the year	*13*	**(98,811)**	33,583

Consolidated Statement of Comprehensive Income (Continued)

(For the year ended 31 March 2010)

	Notes	2010 *HK$'000*	2009 *HK$'000* (Restated)
Other comprehensive income			
Exchange differences arising on translation		**2,388**	2,095
Release of exchange differences upon disposal of subsidiaries		**102**	164
Other comprehensive income for the year		**2,490**	2,259
Total comprehensive (expenses) income for the year		**(96,321)**	35,842
(Loss) profit for the year attributable to:			
– Owners of the Company		**(89,695)**	18,806
– Minority interests		**(9,116)**	14,777
		(98,811)	33,583
Total comprehensive (expenses) income attributable to:			
– Owners of the Company		**(87,605)**	20,755
– Minority interests		**(8,716)**	15,087
		(96,321)	35,842
Basic and diluted (loss) earnings per share (HK$)	*16*	**(0.38)**	0.08

Consolidated Statement of Financial Position

(As at 31 March 2010)

	Notes	2010	2009
		HK$'000	HK$'000
			(Restated)
Non-current assets			
Property, plant and equipment	17	**8,482**	10,875
Goodwill	18	**32,582**	31,360
Other intangible assets	19	**2,012**	622
Prepayment for acquisition of non-current assets	20	**–**	–
Interest in an associate	21	**–**	1
		43,076	42,858
Current assets			
Inventories	22	**22,724**	26,490
Trade receivables	23	**38,602**	39,759
Prepayments, deposits and other receivables	24	**16,355**	15,027
Loan receivables	25	**–**	–
Financial assets at fair value through profit or loss	26	**–**	56
Restricted bank balances	27	**153,894**	100,042
Bank balances and cash	28	**20,241**	56,391
		251,816	237,765
Current liabilities			
Trade payables	29	**2,070**	762
Other payables and accrued expenses	30	**33,361**	31,362
Amounts due to directors	31	**5,188**	1,220
Derivative component of convertible bonds	32	**6,046**	5,220
Derivative component of redeemable convertible cumulative preference shares	33	**6,239**	25,110
Liability component of convertible bonds	32	**52,147**	53,359
Liability component of redeemable convertible cumulative preference shares	33	**176,820**	100,860
Secured bank loans	34	**34,200**	–
Income tax payables		**216**	227
		316,287	218,120

Consolidated Statement of Financial Position (Continued)

(As at 31 March 2010)

	Notes	2010 HK$'000	2009 HK$'000 (Restated)
Net current (liabilities) assets		**(64,471)**	19,645
Total assets less current liabilities		**(21,395)**	62,503
Non-current liability			
Deferred tax liabilities	*35*	**423**	–
Net (liabilities) assets		**(21,818)**	62,503
Capital and reserves			
Share capital	*36*	**26,202**	23,437
Reserves		**(138,961)**	(60,289)
Equity attributable to owners of the Company		**(112,759)**	(36,852)
Minority interests		**90,941**	99,355
		(21,818)	62,503

The consolidated financial statements on pages 29 to 135 were approved and authorised for issue by the board of directors on 28 July 2010 and are signed on its behalf by:

Li Zhong Yuan *Director*	**Zhou Bao Yi** *Director*

Consolidated Statement of Changes in Equity

(For the year ended 31 March 2010)

	Attributable to owners of the Company										
	Share capital	Share premium	Contri-buted surplus	Statutory reserves	Convertible bonds reserve	Foreign currency translation reserve	Share options reserve	Accumu-lated losses	Total	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		Note a	*Note b*	*Note c*	*Note d*	*Note e*	*Note f*				
At 1 April 2008	23,437	212,308	57,124	1,047	3,592	9,642	148	(364,905)	(57,607)	13,008	(44,599)
Total comprehensive income for the year (restated)	–	–	–	–	–	1,949	–	18,806	20,755	15,087	35,842
Acquisition of additional interests in subsidiaries from minority shareholders	–	–	–	–	–	–	–	–	–	(13,730)	(13,730)
Deemed disposal of a subsidiary	–	–	–	–	–	–	–	–	–	84,990	84,990
At 31 March 2009 and 1 April 2009 (restated)	23,437	212,308	57,124	1,047	3,592	11,591	148	(346,099)	(36,852)	99,355	62,503
Total comprehensive income (expenses) for the year	–	–	–	–	–	2,090	–	(89,695)	(87,605)	(8,716)	(96,321)
Conversion of convertible bonds	2,765	8,933	–	–	–	–	–	–	11,698	–	11,698
Deemed disposal of a subsidiary	–	–	–	–	–	–	–	–	–	302	302
At 31 March 2010	**26,202**	**221,241**	**57,124**	**1,047**	**3,592**	**13,681**	**148**	**(435,794)**	**(112,759)**	**90,941**	**(21,818)**

Consolidated Statement of Changes in Equity (Continued)

(For the year ended 31 March 2010)

Notes:

(a) Share premium

Share premium represents premium arising from the issue of shares at a price in excess of their par value per share and is not distributable but may be applied in paying up unissued shares of the Company to be issued to the shareholders of the Company as fully paid bonus shares or in providing for the premiums payable on repurchase of shares.

(b) Contributed surplus

The contributed surplus arose in the previous years represented the net effect of the capital reduction, the share premium cancellation and the elimination of accumulated losses of the Company.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

– it is, or would after the payment be, unable to pay its liabilities as they become due; or

– the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the directors, as at 31 March 2010, the Company did not have any reserve available for distribution to shareholders.

(c) Statutory reserves

Statutory reserves, which are non-distributable, are appropriated from the profit after tax of subsidiaries of the Company in the People's Republic of China (the "PRC") under the applicable laws and regulations in the PRC.

(d) Convertible bonds reserve

The convertible bonds reserve represents the value of the unexercised/repurchased equity component of convertible bonds issued by the Company recognised in accordance with the accounting policy adopted for convertible bonds set out in note 4 to the consolidated financial statements.

(e) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 4 to the consolidated financial statements.

(f) Share options reserve

Share options reserve represents the fair value of unexercised share options granted by the Company recognised in accordance with the accounting policy of share-based payments set out in note 4 to the consolidated financial statements.

Consolidated Statement of Cash Flows

(For the year ended 31 March 2010)

	Notes	2010 HK$'000	2009 HK$'000 (Restated)
OPERATING ACTIVITIES			
(Loss) profit before tax		**(98,425)**	35,034
Adjustments for:			
Finance costs		**63,878**	15,625
Interest income		**(725)**	(1,292)
Amortisation of other intangible assets		**314**	228
Depreciation		**4,434**	5,706
Dividend income		**(3)**	(2)
Impairment losses recognised in respect of trade and other receivables		**3,717**	466
Impairment losses recognised in respect of loan receivables		**–**	18,909
Impairment losses recognised in respect of obsolete inventories		**1**	–
Impairment losses recognised in respect of prepayment for acquisition of non-current assets		**–**	7,045
Fair value loss on financial assets at fair value through profit or loss		**–**	67
Gain on repurchase of convertible bonds		**–**	(1,470)
Fair value loss (gain) on derivative component of convertible bonds		**6,040**	(8,711)
Fair value gain on derivative component of redeemable convertible cumulative preference shares		**(18,871)**	(23,449)
Loss on recalculation of liability component of redeemable convertible cumulative preference shares	33	**18,194**	–
Gain on deemed disposal of a subsidiary	42	**(56)**	(54,993)
Gain on disposal of subsidiaries	41	**(2,533)**	(2,510)
Gain on disposal of financial assets at fair value through profit or loss		**(108)**	–
Loss on disposal of/written off of property, plant and equipment		**564**	46
Loss on written off of interest in an associate		**1**	–
Operating cash flows before movements in working capital		**(23,578)**	(9,301)
Decrease (increase) in inventories		**3,634**	(12,996)
Decrease (increase) in trade receivables		**1,327**	(7,392)
Increase in prepayments, deposits and other receivables		**(4,885)**	(1,268)
Increase (decrease) in trade payables		**1,308**	(1,390)
Increase in other payables and accrued expenses		**1,431**	6,781
Cash used in operations		**(20,763)**	(25,566)
Income tax paid		**(397)**	(2,061)
NET CASH USED IN OPERATING ACTIVITIES		**(21,160)**	(27,627)

Consolidated Statement of Cash Flows (Continued)

(For the year ended 31 March 2010)

	Notes	2010 *HK$'000*	2009 *HK$'000* (Restated)
INVESTING ACTIVITIES			
Acquisition of additional interests in subsidiaries	*40*	**–**	(26,045)
Purchase of property, plant and equipment		**(1,850)**	(4,416)
Advances of loan receivables		**–**	(1,656)
Net cash outflow on acquisition of a subsidiary	*39*	**(816)**	–
Net cash outflow on disposal of subsidiaries	*41*	**(98)**	(185)
Repayment of loan receivables		**–**	10,956
Proceeds from disposal of financial assets at fair value through profit or loss		**164**	–
Proceeds from disposal of property, plant and equipment		**–**	227
Interest received		**725**	903
Dividend received		**3**	2
NET CASH USED IN INVESTING ACTIVITIES		**(1,872)**	(20,214)
FINANCING ACTIVITIES			
Proceeds from issue of convertible preference shares by a subsidiary		**388**	168,090
Proceeds from new secured bank loans		**34,200**	41,364
Repayment of secured bank loans		**–**	(41,364)
Repurchase of convertible bond		**–**	(21,590)
Interest paid		**–**	(1,465)
Increase (decrease) in amounts due to directors		**3,968**	(752)
NET CASH FROM FINANCING ACTIVITIES		**38,556**	144,283
NET INCREASE IN CASH AND CASH EQUIVALENTS		**15,524**	96,442
Effect of foreign exchange rate changes		**2,178**	412
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**156,433**	59,579
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**174,135**	156,433
Analysis of cash and cash equivalents:			
Restricted bank balances		**153,894**	100,042
Bank balances and cash		**20,241**	56,391
		174,135	156,433

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

1. General Information

The Company was incorporated in Bermuda as an exempted company with limited liability under the Companies Act of Bermuda. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is different from the functional currency of the Company, Renminbi ("RMB"). As the Company is listed in Hong Kong, the directors of the Company consider that it is appropriate to present the consolidated financial statements in HK$. The majority of the Company's subsidiaries are operating in the People's Republic of China (the "PRC") with RMB as their functional currency.

The Company is an investment holding company. The principal activities of its subsidiaries and an associate are set out in notes 47 and 21 to the consolidated financial statements respectively.

During the year ended 31 March 2010, an error was discovered whereby a dividend in relation to convertible preference shares of a subsidiary of the Company accrued in 2009 did not meet the definition of liability under HKFRS. This resulted in an understatement of profit for the year ended 31 March 2009 of approximately HK$6,531,000. This error was corrected in 2010 and the 2009 comparative figures were retrospectively adjusted. As a result of correcting this error, the balance of other payables as at 31 March 2009 and finance costs for the year ended 31 March 2009 have decreased by approximately HK$6,531,000, the accumulative losses as at 31 March 2009 have decreased by approximately HK$6,531,000 and the earnings per share for the year ended 31 March 2009 has increased by HK$0.03. As this event had no effect on the consolidated financial statements as at 1 April 2008, no consolidated statement of financial position as at 1 April 2008 has been presented in accordance with the requirement of the HKAS 1 (Revised) Presentation of Financial Statements.

2. Basis of Preparation

In preparing the consolidated financial statements, the directors of the Company have given consideration to the future liquidity of the Company and its subsidiaries (collectively referred to as the "Group").

As at 31 March 2010, the Group had net current liabilities of approximately HK$64,471,000 and net liabilities of approximately HK$21,818,000. Furthermore, the Group had bank balances of approximately HK$153,894,000 which are subject to restrictions imposed by the non-redeemable convertible preference share holders of the Company's subsidiary pursuant to the terms of the subscription agreement.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

2. Basis of Preparation *(Continued)*

During the year ended 31 March 2010, the Group was unable to redeem the convertible bonds which had been due on 18 May 2009 ("CB1"). At 31 March 2010, the overdue principal and interest of CB1 were approximately HK$42,524,000 and HK$1,796,000 respectively. In addition, the Group has convertible bonds with original maturity date of 1 June 2011 ("CB3") and redeemable convertible cumulative preference shares with original maturity date of 28 July 2011 ("PS") with outstanding amounts as at 31 March 2010 of approximately HK$13,873,000 and HK$183,059,000 respectively. Such amounts have became repayable on demand due to cross default with the default on CB1 which had triggered the Company's obligation in early redemption of CB3 and PS. The Group has been actively in discussions with the holders of the convertible bonds for standstills, and a majority of the holders of the convertible bonds have verbally indicated they would not take immediate legal action against the Company to enforce their rights under the convertible bonds, and these would, de facto, allow the Group to defer the redemption of the convertible bonds, with a view to continue working on a potential restructuring of its capital structure with the holder of the redeemable convertible cumulative preference shares of the Company ("PS holder"). Also, the Group is currently in discussion with certain prospective external resources providers to bring in viable assets and/or projects to restructure its defaulted financial obligation, and to solve the Group's solvency problem. In the mean time, the Group is implementing stringent cost control measures. The directors of the Company are of the opinion that continuous financial support will be provided by the Group's prospective investors to finance its future working capital and financial requirements, provided that the restructuring of capital structure with PS holder is successful.

Accordingly, notwithstanding that the Group is unable to redeem the convertible bonds on demand, the directors of the Company are of the opinion that it is still appropriate to prepare the consolidated financial statements for the year ended 31 March 2010 on a going concern basis. Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets as current assets. The effect of these adjustments has not been reflected in the consolidated financial statements.

Notes to the Consolidated Financial Statements
(For the year ended 31 March 2010)

3. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")

In the current year, the Group has applied the following new and revised standards, amendments to standards and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Hong Kong Accounting Standard ("HKAS") 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 32 and HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 and HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK (IFRIC) – Interpretation ("Int") 9 and HKAS 39 (Amendments)	Embedded Derivatives
HK (IFRIC) – Int 13	Customer Loyalty Programmes
HK (IFRIC) – Int 15	Agreements for the Construction of Real Estate
HK (IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation
HK (IFRIC) – Int 18	Transfers of Assets from Customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning on or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

Except as described below, the adoption of the new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

3. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

New and revised HKFRSs affecting presentation and disclosure only

HKAS 1 (Revised 2007) Presentation of Financial Statements

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the consolidated financial statements) and changes in the format and content of the consolidated financial statements.

HKFRS 8 Operating Segments

HKFRS 8 is a disclosure standard. The adoption of HKFRS 8 has not resulted in a re-designation of the Group's reportable segments nor changes in basis of measurement of segment profit or loss, segment assets and segment liabilities.

Improving Disclosures about Financial Instruments (Amendments to HKFRS 7 Financial Instruments: Disclosures)

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The amendments also expand and amend the disclosures required in relation to liquidity risk. The Group has not provided comparative information for the expand disclosures in accordance with the transitional provision set out in the amendments.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKFRSs (Amendments)	Improvements to HKFRSs 2010[3]
HKAS 24 (Revised)	Related Party Disclosures[7]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendment)	Classification of Rights Issues[5]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Revised)	First-time Adoption of HKFRSs[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[4]

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

3. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

HKFRS 1 (Amendment)	Limited Exemptions from Comparative HKFRS 7 Disclosures for First-time Adopters[6]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[4]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments[8]
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[7]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[6]

[1] Effective for annual periods beginning on or after 1 July 2009.

[2] Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.

[3] Amendments that are effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.

[4] Effective for annual periods beginning on or after 1 January 2010.

[5] Effective for annual periods beginning on or after 1 February 2010.

[6] Effective for annual periods beginning on or after 1 July 2010.

[7] Effective for annual periods beginning on or after 1 January 2011.

[8] Effective for annual periods beginning on or after 1 January 2013.

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

Notes to the Consolidated Financial Statements
(For the year ended 31 March 2010)

3. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

4. Significant Accounting Policies

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

4. Significant Accounting Policies *(Continued)*

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

4. Significant Accounting Policies *(Continued)*

Business combinations

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 *Business Combinations* are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss for goodwill is not reversed in subsequent periods.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

4. Significant Accounting Policies *(Continued)*

Goodwill *(Continued)*

On disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Interest in an associate

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a jointly controlled entity.

The results and assets and liabilities of associate are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investment in an associate is carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits or losses are eliminated to the extent of the Group's interest in the relevant associate.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

4. Significant Accounting Policies *(Continued)*

Foreign currencies *(Continued)*

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency (i.e. HK$) of the Group at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the foreign currency translation reserve).

Property, plant and equipment

Property, plant and equipment (other than construction in progress) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment (other than construction in progress) over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

4. Significant Accounting Policies *(Continued)*

Intangible assets

Intangible assets acquired separately

Intangible asset acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below). Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair value can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below). Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Notes to the Consolidated Financial Statements
(For the year ended 31 March 2010)

4. Significant Accounting Policies *(Continued)*

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and service provided in the normal course of business, net of discounts and sales related taxes.

Revenues from the sales of goods are recognised when the goods are delivered and the title has passed.

Revenue from E-commerce distribution of mobile pre-charge are recognised on delivery of relevant data to the customers.

Service fee income is recognised when the service is rendered.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

4. Significant Accounting Policies *(Continued)*

Revenue recognition *(Continued)*

Deposits and instalments received from customers prior to meeting the above criteria on revenue recognition are included in the statement of financial position under current liabilities.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interest in an associate, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extend that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Notes to the Consolidated Financial Statements
(For the year ended 31 March 2010)

4. Significant Accounting Policies *(Continued)*

Taxation *(Continued)*

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in to profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into financial assets at fair value through profit or loss ("FVTPL") and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Notes to the Consolidated Financial Statements
(For the year ended 31 March 2010)

4. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis.

Financial assets at fair value through profit or loss

The Group's financial assets at FVTPL are classified into financial assets held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

Notes to the Consolidated Financial Statements
(For the year ended 31 March 2010)

4. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, deposits and other receivables, loan receivables, restricted bank balances, and bank balances and cash) are carried at amortised cost, using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been affected.

The objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 3 to 90 days or repayment date, as well as observable changes in national or local economic conditions that correlate with default on receivables.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

4. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets *(Continued)*

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and deposits and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable or deposit and other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definition of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Notes to the Consolidated Financial Statements
(For the year ended 31 March 2010)

4. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Other financial liabilities
Other financial liabilities including trade payables, other payables and accrued expenses, amounts due to directors and secured bank loans are subsequently measured at amortised cost, using the effective interest method.

Convertible bonds containing liability and equity components
Convertible bonds issued by the Group that contain both the liability and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible bonds and the fair value assigned to the liability component, representing the conversion option for the holder to convert the bonds into equity, is included in equity (convertible bonds reserve).

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible bonds reserve until the embedded option is exercised (in which case the balance stated in convertible bonds reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible bonds reserve will be released to the accumulated losses. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

4. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Convertible bonds containing liability component and conversion option derivative

Convertible bonds issued by the Group that contain both liability and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative. At the date of issue, both the liability and conversion option components are recognised at fair value.

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The conversion option derivative is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and conversion option components in proportion to their relative fair values. Transaction costs relating to the conversion option derivative is charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

Redeemable convertible cumulative preference shares

Redeemable convertible cumulative preference shares which entitle the holder to convert into equity instruments, other than into a fixed number of equity instruments at a fixed conversion price are regarded as combined instruments consist of a liability and a derivative component. At the date of issue, the fair value of the derivative component is determined using an option pricing model; and this amount is carried as a derivative liability until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the liability component and is carried as a liability at amortised cost using the effective interest method until extinguished on conversion or redemption. The derivative component is measured at fair value with gains or losses recognised in profit or loss.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

4. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Redeemable convertible cumulative preference shares (Continued)

Transaction costs are apportioned between the liability and derivative components of the redeemable convertible cumulative preference shares based on the allocation of proceeds to the liability and derivative components when the instruments on initial recognition. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the redeemable convertible cumulative preference shares using effective interest method. Transaction costs relating to derivative component are charged to profit or loss immediately.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Retirement benefits costs

Payments to the defined contribution retirement benefits schemes are charged as an expense when employees have rendered service entitling them to the contributions.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

4. Significant Accounting Policies *(Continued)*

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees after 7 November 2002 and vested on or after 1 January 2005

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will continue to be held in share options reserve.

Share options granted to employees on or before 7 November 2002, or granted after 7 November 2002 and vested before 1 January 2005

The financial impact of share options granted is not recorded in the consolidated financial statements until such time as the options are exercised, and no charge is recognised in profit or loss in respect of the value of options granted. Upon the exercise of the share options, the resulting shares issued are recorded as additional share capital at the nominal value of shares, and the excess of the exercise price per share over the nominal value of the shares is recorded as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

4. Significant Accounting Policies *(Continued)*

Share-based payment transactions *(Continued)*

Equity-settled share-based payment transactions *(Continued)*

Share options granted to advisors/consultants

Share options issued in exchange for services are measured at the fair values of the goods or services received. The fair values of the goods or services received are recognised as expenses, with a corresponding increase in equity (share options reserve), when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Impairment losses on tangible assets and intangible assets other than goodwill (see accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the entity's accounting policies

The following are the critical judgements, apart from those involving estimation (see below), that the directors have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

Going concern and liquidity

As explained in note 2 to the consolidated financial statements, the financial position of the Group indicates the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The directors are taking active steps to improve the liquidity position of the Group and details are set out in note 2. Should the Group be unable to raise new financing or other measures fail to improve the liquidity of the Group and the Group is unable to continue in business as a going concern, adjustments would be needed to reduce the carrying amounts of the assets of the Group to their recoverable amounts and, to provide for further liabilities which might arise.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty *(Continued)*

Critical judgements in applying the entity's accounting policies *(Continued)*

Impairment losses for prepayment for acquisition of non-current assets

During the year ended 31 March 2009, the Group recognised full impairment losses for prepayment for acquisition of non-current assets of approximately HK$7,045,000. The directors of the Company have assessed the development of the project carried out by the potential investment which is concluded to be unprofitable. Relevant details are set out in note 20 to the consolidated financial statements. In making such assessment, the directors of the Company exercised judgement, which caused uncertainty in the assessment that would impact the amount of impairment loss recognised in the consolidated statement of comprehensive income for the year ended 31 March 2009. The directors of the Company reviewed the impairment losses and no revision was made for the year ended 31 March 2010.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment losses for loan receivables

During the year ended 31 March 2009, the Group recognised impairment losses for loan receivables of an aggregate amount of approximately HK$18,909,000. The amount represented loan advancements to several independent third parties. The directors of the Company had assessed the recoverability of the loan receivables on an individual basis, and had considered for the financial position of the borrower and their ability to repay. The directors of the Company are of the opinion that the outstanding loan receivables at 31 March 2009 are irrecoverable, and full impairment had been charged to the consolidated statement of comprehensive income accordingly. Details of impairment assessment on loan receivables are set out in note 25. The directors of the Company reviewed the impairment losses and no revision was made for the year ended 31 March 2010.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Useful lives of property, plant and equipment

In applying the accounting policy on property, plant and equipment with respect to depreciation, management estimates the useful lives of various categories of property, plant and equipment according to the industrial experiences over the usage of property, plant and equipment and also by reference to the relevant industrial norm. When the actual useful lives of property, plant and equipment due to the change of commercial environment are different from their estimated useful lives, such difference will impact the deprecation charges and the amounts of assets written down for future periods.

Impairment losses for property, plant and equipment

The Group evaluates whether items of property, plant and equipment have suffered any impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable, in accordance with the stated accounting policy. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. No impairment loss in respect of property, plant and equipment was recognised for the years ended 31 March 2010 and 2009.

Impairment losses for bad and doubtful debts for trade and other receivables

The Group makes impairment loss for bad and doubtful debt based on an assessment of the recoverability of trade and other receivables. Impairments are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed. As at 31 March 2010, the carrying amount of trade and other receivables is approximately HK$49,233,000 (net of allowance for doubtful debts of approximately HK$20,571,000) (31 March 2009: carrying amount of approximately HK$50,489,000, net of allowance for doubtful debts of approximately HK$16,829,000).

Notes to the Consolidated Financial Statements
(For the year ended 31 March 2010)

5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Impairment losses for obsolete inventories

During the year ended 31 March 2010, the Group recognised impairment losses for obsolete inventories of approximately HK$1,000 (2009: Nil). The management of the Group reviews an aging analysis at the end of each reporting period, and makes allowance for obsolete and slow-moving inventory items and for price reduction in the market prices. The management estimates the net realisable value for finished goods based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of each reporting period and makes allowance for obsolete items.

Impairment losses for goodwill

The Group determines whether goodwill is impaired at least on an annual basis and in accordance with the accounting policy stated in note 4. This requires an estimation of the value-in-use of the cash-generating unit to which the goodwill is allocated. Estimating the value in use requires the Group to estimate the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Where the actual future cash flows are less than expected, a material impairment loss may arise. No impairment loss in respected of goodwill has been recognised during the years ended 31 March 2010 and 2009.

Details of impairment testing on goodwill are set out in note 18.

Fair value of embedded derivatives

As disclosed in notes 32 and 33 to the consolidated financial statements, the fair values of the derivative components of convertible bonds and redeemable convertible cumulative preference shares at the date of issue, date of conversion and the end of the reporting periods were determined using Binomial Model with reference to the valuations performed by an independent valuer. Application of the valuation model requires the Group to estimate the prominent factors affecting the fair value, including but not limited to, the expected life of the derivative components, the expected volatility of the share price of the Company and the potential dilution in the share price of the Company. Where the estimation on these factors is different from those previously estimated, such differences will impact the fair value gain or loss of the derivative components of convertible bonds and redeemable convertible cumulative preference shares in the period in which such determination is made. During the year ended 31 March 2010, the fair value loss of the derivative components of convertible bonds and fair value gain of the redeemable convertible cumulative preference shares are approximately HK$6,040,000 (2009: fair value gain of approximately HK$8,711,000) and HK$18,871,000 (2009: fair value gain of approximately HK$23,449,000) respectively.

Notes to the Consolidated Financial Statements
(For the year ended 31 March 2010)

6. Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes convertible bonds, redeemable convertible cumulative preference shares, cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure periodically. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through adjusting the new share issues, share buy-back and the issue of new debt or the redemption of existing debt or sell assets to reduce debt.

7. Financial Instruments

(a) Categories of financial instruments

	2010	2009
	HK$'000	*HK$'000*
		(Restated)
Financial assets		
Loans and receivables (including cash and cash equivalents)		
Trade receivables	**38,602**	39,759
Deposits and other receivables	**11,286**	11,547
Bank balances and cash	**20,241**	56,391
Restricted bank balances	**153,894**	100,042
	224,023	207,739
Financial assets at fair value through profit or loss	**–**	56
	224,023	207,795

Notes to the Consolidated Financial Statements
(For the year ended 31 March 2010)

7. Financial Instruments *(Continued)*

(a) Categories of financial instruments *(Continued)*

	2010	2009
	HK$'000	*HK$'000*
		(Restated)
Financial liabilities		
Financial liabilities at amortised cost		
Trade payables	**2,070**	762
Other payables and accrued expenses	**33,361**	31,362
Amounts due to directors	**5,188**	1,220
Liability component of convertible bonds	**52,147**	53,359
Liability component of redeemable convertible cumulative preference shares	**176,820**	100,860
Secured bank loans	**34,200**	–
	303,786	187,563
Financial liabilities at fair value through profit or loss		
Derivative component of convertible bonds	**6,046**	5,220
Derivative component of redeemable convertible cumulative preference shares	**6,239**	25,110
	12,285	30,330
	316,071	217,893

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

7. Financial Instruments *(Continued)*

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, deposits and other receivables, loan receivables, financial assets at fair value through profit or loss, restricted bank balances, bank balances and cash, trade payables, other payables and accrued expenses, amounts due to directors, convertible bonds, redeemable convertible cumulative preference shares and secured bank loans. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risks (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Currency risk

The majority of bank balances and cash, convertible bonds and redeemable convertible cumulative preference shares of the Group are denominated in foreign currencies which expose the Group to currency risk. The Group did not have a foreign currency hedging policy as at the end of the reporting period. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

At 31 March 2010, the carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the respective closing rates, are as follows:

	2010			2009		
	Monetary assets	**Monetary liabilities**	**Net exposure**	Monetary assets	Monetary liabilities	Net exposure
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
HK$	**3,418**	**25,477**	**(22,059)**	6,433	23,675	(17,242)
US$	**105,176**	**221,140**	**(115,964)**	130,604	144,922	(14,318)

The Group is mainly exposed to HK$ and US$.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

7. Financial Instruments *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Currency risk (Continued)

The following table details the Group's sensitivity analysis to a 1% (2009: 1%) increase or decrease in RMB against the relevant foreign currencies. 1% (2009: 1%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 1% (2009:1%) change in foreign currency rates. A positive number below indicates a decrease in loss/an increase in profit after tax where RMB strengthens 1% (2009: 1%) against the relevant currencies. For a 1% (2009: 1%) weakening of RMB against the relevant currencies, there would be an equal and opposite impact on the loss/profit after tax and accumulated losses, and the balances below would be negative.

Effect on loss/profit after tax:

	2010	2009
	HK$'000	*HK$'000*
HK$	**221**	172
US$	**1,160**	143
	1,381	315

Interest rate risk

The Group is exposured to fair value interest rate risk in relation to fixed-rate convertible bonds, redeemable convertible cumulative preference shares and secured bank loans as disclosed in notes 32, 33 and 34 respectively. The Group currently does not enter into any hedging instrument for fair value interest rate risk.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

Notes to the Consolidated Financial Statements
(For the year ended 31 March 2010)

7. Financial Instruments *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Other price risk

The Group's derivative components of convertible bonds, redeemable convertible cumulative preference shares and financial assets at fair value through profit or loss are measured at fair value at the end of each reporting period. Therefore, the Group is exposed to equity security price risk.

At 31 March 2010, if the share price of the Company and its volatility had increased by 10% (2009: 10%) with all other variables held constant and all the derivative components moved according to the historical correlation with the share price of the Company, the consolidated post-tax loss for the year would increase by approximately HK$2,137,000 (2009: the consolidated post-tax profit for the year would decrease by approximately HK$3,033,000), arising from changes in fair value of the derivative components of convertible bonds and redeemable convertible cumulative preference shares.

If the share price of the Company and its volatility had decreased by 10% (2009: 10%) with all other variables held constant and all the derivative components moved according to the historical correlation with the share price of the Company, the consolidated post-tax loss for the year would decrease by approximately HK$2,985,000 (2009: the consolidated post-tax profit for the year would increase by approximately HK$2,457,000), arising from changes in fair value of derivative components of convertible bonds and redeemable convertible cumulative preference shares.

Credit risk

As at 31 March 2010, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group only trades with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis, the directors review the recoverable amount of each individual trade debt and loan regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, the directors consider that the Group's credit risk is significantly reduced.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

7. Financial Instruments *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk *(Continued)*

As at 31 March 2010, the Group has concentration of credit risk as 18% (2009: 18%) and 55% (2009: 58%) of the total trade receivables was due from the Group's largest customer and five largest customers, respectively which are included in the segment of B-to-C consumer services.

The counterparties of the Group are mainly in the PRC. However, the credit risk on geographical locations is limited as the counterparties are spread over among different cities and provinces in the PRC as at 31 March 2010 and 2009.

Other than the concentration risk on loan receivables, the Group does not have any other significant concentration of credit risk. The loan receivables, which are due from 5 (2008: 5) borrowers. The directors of the Company individually assess the recoverability of the loan receivables at least on an annual basis.

The credit risk on bank balances is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Liquidity risk

In the management of the liquidity risk, the Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and long term.

During the year ended 31 March 2010, the Group was unable to redeem its convertible bonds which had matured on 18 May 2009. In the opinion of the directors, the Group should be able to maintain itself as a going concern in the coming year since the directors are taking active steps to improve the liquidity position of the Group and actively considering raising additional capital financing from potential investors.

Notes to the Consolidated Financial Statements
(For the year ended 31 March 2010)

7. Financial Instruments *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

The following table details the Group's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity analysis of the Group's financial liabilities is as follows:

	Less than 1 year	Total undiscounted cash flows	Carrying amount
	HK$'000	*HK$'000*	*HK$'000*
As at 31 March 2010			
Non-derivative financial liabilities			
Trade payables	**2,070**	**2,070**	**2,070**
Other payables and accrued expenses	**33,361**	**33,361**	**33,361**
Amounts due to directors	**5,188**	**5,188**	**5,188**
Liability component of convertible bonds	**54,562**	**54,562**	**52,147**
Liability component of redeemable convertible cumulative preference shares	**294,477**	**294,477**	**176,820**
Secured bank loans	**34,511**	**34,511**	**34,200**
	424,169	**424,169**	**303,786**
Derivative – gross settlement			
Derivate component of convertible bonds	**6,046**	**6,046**	**6,046**
Derivate component of redeemable convertible cumulative preference shares	**6,239**	**6,239**	**6,239**
	12,285	**12,285**	**12,285**

Notes to the Consolidated Financial Statements
(For the year ended 31 March 2010)

7. Financial Instruments *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

	Less than 1 year *HK$'000* (Restated)	Total undiscounted cash flows *HK$'000* (Restated)	Carrying amount *HK$'000* (Restated)
As at 31 March 2009			
Non-derivative financial liabilities			
Trade payables	762	762	762
Other payables and accrued expenses	31,362	31,362	31,362
Amounts due to directors	1,220	1,220	1,220
Liability component of convertible bonds	63,245	63,245	53,359
Liability component of redeemable convertible cumulative preference shares	117,000	117,000	100,860
	213,589	213,589	187,563
Derivative – gross settlement			
Derivate component of convertible bonds	5,220	5,220	5,220
Derivate component of redeemable convertible cumulative preference shares	25,110	25,110	25,110
	30,330	30,330	30,330

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

7. Financial Instruments *(Continued)*

(c) Fair values

The fair value of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities (including derivative instruments) with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask prices respectively;

- The fair values of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions and dealer quotes for similar instruments; and

- The fair values of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated statement of financial position of the Group approximate their fair values due to their immediate or short term maturities.

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

7. Financial Instruments *(Continued)*

(c) Fair values *(Continued)*

Fair value measurements recognised in the consolidated statement of financial position *(Continued)*

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 March 2010				
Financial liabilities at FVTPL				
Derivative financial liabilities	–	12,285	–	12,285

There were no transfers between Level 1 and 2 during the year ended 31 March 2010.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

8. Segment Information

The Group has adopted HKFRS 8 *Operating Segments* with effect from 1 April 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor standard (HKAS 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14. Nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss.

The Group's operating and reportable segments under HKFRS 8 which are based on the nature of business are as follows:

– Sales of medical devices and consumables

– B-to-B healthcare services

– B-to-C consumer services

– Investment holding

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

8. Segment Information *(Continued)*

(a) Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment.

For the year ended 31 March 2010

	Sales of medical devices and consumables *HK$'000*	B-to-B healthcare services *HK$'000*	B-to-C consumer services *HK$'000*	Investment holding *HK$'000*	Consolidated *HK$'000*
REVENUE					
External sales	13,114	6,653	2,756,646	–	2,776,413
Segment results	(2,328)	(2,872)	(10,554)	–	(15,754)
Unallocated corporate expenses					(36,885)
Other income					1,839
Interest income					725
Fair value loss on derivative component of convertible bonds					(6,040)
Fair value gain on derivative component of redeemable convertible cumulative preference shares					18,871
Finance costs					(63,878)
Gain on disposal of financial assets at fair value through profit or loss					108
Gain on deemed disposal of a subsidiary					56
Gain on disposal of a subsidiary					2,533
Loss before tax					(98,425)

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

8. Segment Information *(Continued)*

(a) Segment revenues and results *(Continued)*

For the year ended 31 March 2009

	Sales of medical devices and consumables *HK$'000*	B-to-B healthcare services *HK$'000*	B-to-C consumer services *HK$'000*	Investment holding *HK$'000*	Consolidated *HK$'000* (Restated)
REVENUE					
External sales	4,922	7,381	2,858,416	–	2,870,719
Segment results	(1,355)	(1,575)	2,052	–	(878)
Unallocated corporate expenses					(17,909)
Other income					3,042
Interest income					1,292
Fair value loss on financial assets at fair value through profit or loss					(67)
Fair value gain on derivative component of convertible bonds					8,711
Fair value gain on derivative component of redeemable convertible cumulative preference shares					23,449
Gain on repurchase of convertible bonds					1,470
Impairment loss recognised in respect of loan receivables					(18,909)
Impairment loss recognised in respect of prepayment for acquisition of non-current assets					(7,045)
Finance costs					(15,625)
Gain on deemed disposal of a subsidiary					54,993
Gain on disposal of subsidiaries					2,510
Profit before tax					35,034

Notes to the Consolidated Financial Statements
(For the year ended 31 March 2010)

8. Segment Information *(Continued)*

(a) Segment revenues and results *(Continued)*

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 4. Segment results represents the results of each segment without allocation of central administration costs, directors emoluments, other income, interest income, fair value loss on financial assets at fair value through profit or loss, fair value gain on derivative component of convertible bonds, fair value loss/gain on derivative component of redeemable convertible cumulative preference shares, gain on repurchase of convertible bonds, impairment loss recognised in respect of loan receivables, impairment loss recognised in respect of prepayment for acquisition of non-current assets, finance costs, gain on disposal of financial assets at fair value through profit or loss, gain on deemed disposal of a subsidiary and gain on disposal of subsidiaries. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

(b) Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment:

At 31 March 2010

	Sales of medical devices and consumables	B-to-B healthcare services	B-to-C consumer services	Investment holding	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS					
Segment assets	8,802	37,420	217,149	–	263,371
Unallocated corporate assets					31,521
Consolidated assets					294,892
LIABILITIES					
Segment liabilities	2,926	4,931	13,711	–	21,568
Unallocated corporate liabilities					295,142
Consolidated liabilities					316,710

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

8. Segment Information *(Continued)*

(b) Segment assets and liabilities *(Continued)*

At 31 March 2009

	Sales of medical devices and consumables *HK$'000*	B-to-B healthcare services *HK$'000*	B-to-C consumer services *HK$'000*	Investment holding *HK$'000*	Consolidated *HK$'000* (Restated)
ASSETS					
Segment assets	7,860	16,115	192,377	–	216,352
Unallocated corporate assets					64,271
Consolidated assets					280,623
LIABILITIES					
Segment liabilities	872	5,484	10,505	–	16,861
Unallocated corporate liabilities					201,259
Consolidated liabilities					218,120

For the purpose of monitoring segment performances and allocating resources between segments:

- all assets are allocated to reportable segments other than financial assets as fair value through profit or loss, bank balances and cash and other corporate assets; and

- all liabilities are allocated to reportable segments other than amounts due to directors, derivative component of convertible bonds, derivative component of redeemable convertible cumulative preference shares, liability component of convertible bonds, liability component of redeemable convertible cumulative preference shares, secured bank loans, income tax payables, deferred tax liabilities and other corporate liabilities.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

8. Segment Information *(Continued)*

(c) Other segment information

For the year ended 31 March 2010

	Sales of medical devices and consumables *HK$'000*	**B-to-B healthcare services** *HK$'000*	**B-to-C consumer services** *HK$'000*	**Unallocated corporate assets** *HK$'000*	**Consolidated** *HK$'000*
Amounts included in the measure of segment profit or loss or segment assets:					
Addition to non-current assets *(Note)*	**–**	**51**	**358**	**1,494**	**1,903**
Amortisation	**–**	**–**	**314**	**–**	**314**
Depreciation	**284**	**1,536**	**1,335**	**1,279**	**4,434**
Amounts regularly provided to the chief operating decision maker but not included in measure of segment profit or loss or segment assets:					
Interest income	**–**	**3**	**234**	**488**	**725**
Finance costs	**–**	**–**	**641**	**63,237**	**63,878**
Income tax expense	**95**	**–**	**291**	**–**	**386**

For the year ended 31 March 2009

	Sales of medical devices and consumables *HK$'000*	B-to-B healthcare services *HK$'000*	B-to-C consumer services *HK$'000*	Unallocated corporate assets *HK$'000* (Restated)	Consolidated *HK$'000* (Restated)
Amounts included in the measure of segment profit or loss or segment assets:					
Addition to non-current assets (Note)	1,821	633	1,918	44	4,416
Amortisation	–	–	228	–	228
Depreciation	369	1,951	2,920	466	5,706
Amounts regularly provided to the chief operating decision maker but not included in measure of segment profit or loss or segment assets:					
Interest income	9	6	162	1,115	1,292
Finance costs	–	–	118	15,507	15,625
Income tax expense	38	–	1,413	–	1,451

Note: Non-current assets excluded goodwill and interest in an associate. Additions to non– current assets for the year ended 31 March 2010 included additions resulting from acquisition through business combinations, amounting to HK$53,000 (2009: Nil).

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

8. Segment Information *(Continued)*

(d) Geographical information

For the year ended 31 March 2010 and 2009, the Group's operations and its non-current assets are principally located in PRC (the country of domicile), mainly including Shanghai, Beijing, Guangdong, Nanjing and Hong Kong. Accordingly, no geographical segment information is presented.

(e) Information about major customers

Revenues from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	Year ended 31 March	
	2010	2009
	HK$'000	*HK$'000*
Customer A	**526,583**	557,668

The above revenue was from the segment of B-to-C consumer services.

9. Revenue

An analysis of the Group's revenue which represents sales of medical devices and consumables, revenue from B-to-C consumer services and income of B-to-B healthcare services is as follows:

	2010	2009
	HK$'000	*HK$'000*
Revenue		
Sales of medical devices and consumables	**13,114**	4,922
Revenue from B-to-C consumer services	**2,756,646**	2,858,416
Income of B-to-B healthcare services	**6,653**	7,381
	2,776,413	2,870,719

Notes to the Consolidated Financial Statements
(For the year ended 31 March 2010)

10. Other Income

	2010	2009
	HK$'000	HK$'000
Interest income on bank deposits	725	903
Other interest income	–	389
Government grants *(Note)*	–	1,217
Dividend income	3	2
Rental income from medical devices	57	–
Exchange gains	482	–
Others	1,297	1,823
	2,564	4,334

Note: Government grants represent subsidies to foreign owned enterprises as awards for investing in the PRC. They were determined at the sole discretion of the relevant PRC government.

11. Finance Costs

	2010	2009
	HK$'000	HK$'000
		(Restated)
Interests on bank loans wholly repayable within five years	641	118
Effective interest expenses on convertible bonds wholly repayable within five years	5,272	5,254
Effective interest expenses on liability component of redeemable convertible cumulative preference shares wholly repayable within five years	57,965	10,253
	63,878	15,625

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

12. Income Tax Expense

	2010	2009
	HK$'000	*HK$'000*
Current tax – PRC		
Provision for the year	**386**	1,341
Underprovision in prior years	**–**	110
	386	1,451

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009.

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group did not generate any assessable profit arising from Hong Kong for both years.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law"). On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. Under the New Law and Implementation Regulations, the Enterprise Income Tax rate of the Group's subsidiaries in the PRC reduced from 33% to 25% from 1 January 2008 onwards. The relevant tax rates for the Group's subsidiaries in the PRC ranged from 18% to 25% for the year ended 31 March 2010 (2009: 15% to 33%).

The PRC Enterprise Income Tax rate of the Group's subsidiaries in the PRC was increased from 15% to 25% progressively from 1 January 2008 onwards (2008: 18%, 2009: 20%, 2010: 22%, 2011: 24%, 2012: 25%).

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

12. Income Tax Expense *(Continued)*

The income tax expense can be reconciled to the (loss) profit per the consolidated statement of comprehensive income as follows:

	2010	2009
	HK$'000	*HK$'000*
		(Restated)
(Loss) profit before tax	**(98,425)**	35,034
Tax at the domestic income tax rate in the PRC of 25% (2009: 25%)	**(24,606)**	8,759
Tax effect of expenses not deductible for tax purpose	**30,694**	15,394
Tax effect of income not taxable for tax purpose	**(8,477)**	(23,501)
Tax effect of tax losses not recognised	**2,515**	1,281
Tax effect of other deductible temporary difference not recognised	**891**	53
Utilisation of tax losses not previously recognised	**(427)**	(133)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(204)**	(512)
Underprovision in prior years	**–**	110
Income tax expense	**386**	1,451

Details of deferred tax are set out in note 35.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

13. (Loss) Profit for the Year

	2010	2009
	HK$'000	*HK$'000*
(Loss) profit for the year had been arrived at after charging:		
Amortisation of other intangible assets included in administrative expenses	**314**	228
Auditor's remuneration	**714**	900
Cost of inventories recognised as expenses	**2,744,524**	2,840,615
Depreciation	**4,434**	5,706
Net exchange losses	**–**	53
Impairment loss recognised in respect of obsolete inventories	**1**	–
Loss on written off of interest in an associate	**1**	–
Loss on disposal of/written off of property, plant and equipment	**564**	46
Operating leases payments in respect of land and buildings	**2,959**	2,713
Research and development expenditure	**95**	661
Staff costs (including directors' remuneration)		
– Salaries and allowances	**13,815**	10,804
– Retirement benefit scheme contributions	**2,057**	1,681
	15,872	12,485

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

14. Directors' Emoluments and Highest Paid Employees

Directors' emoluments

The emoluments paid or payable to each of the 7 (2009: 7) directors were as follows:

Year ended 31 March 2010

Name	Directors' fees	Salaries and other benefits	Contributions to retirement benefit schemes	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors				
Dr. Li Zhong Yuan	–	2,040	12	2,052
Mr. Lee Jong Dae *(Note)*	–	417	5	422
Mr. Zhou Bao Yi	–	501	–	501
Non-executive director				
Mr. Martin Treffer	–	–	–	–
Independent non-executive directors				
Mr. Mu Xiang Ming	114	–	–	114
Dr. Yan Shi Yun	114	–	–	114
Mr. Jiang Bo	114	–	–	114
Total	342	2,958	17	3,317

Note: resigned on 25 August 2009.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

14. Directors' Emoluments and Highest Paid Employees *(Continued)*

Directors' emoluments *(Continued)*

Year ended 31 March 2009

Name	Directors' fees	Salaries and other benefits	Contributions to retirement benefit schemes	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors				
Dr. Li Zhong Yuan	–	1,791	12	1,803
Mr. Lee Jong Dae	–	1,335	12	1,347
Mr. Zhou Bao Yi	–	439	–	439
Non-executive director				
Mr. Martin Treffer	–	–	–	–
Independent non-executive directors				
Mr. Mu Xiang Ming	116	–	–	116
Dr. Yan Shi Yun	116	–	–	116
Mr. Jiang Bo	108	–	–	108
Total	340	3,565	24	3,929

No director had waived any emoluments during the two years ended 31 March 2010 and 2009.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

14. Directors' Emoluments and Highest Paid Employees *(Continued)*

Five highest paid individuals

The five highest paid individuals in the Group included two (2009: three) directors of the Company, details of whose emoluments are reflected in the analysis presented above. The emoluments of the remaining three (2009: two) individuals were as follows:

	2010	2009
	HK$'000	*HK$'000*
Salaries and other benefits	**1,363**	1,269
Contributions to retirement benefit schemes	**59**	–
	1,422	1,269

The emoluments of the above individuals fell within the following bands:

	Number of employees	
	2010	2009
Nil to HK$1,000,000	**3**	2

No emoluments have been paid or payable by the Group to any of the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the two years ended 31 March 2010 and 2009.

15. Dividend

No dividend was paid or proposed during the year, nor has any dividend been proposed since the end of the reporting period (2009: Nil).

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

16. (Loss) Earnings Per Share

(a) Basic

The calculation of the basic (loss) earnings per share attributable to the owners of the Company is based on the following data:

	2010	2009
	HK$'000	*HK$'000*
		(Restated)
(Loss) profit for the year attributable to the owners of the Company	**(89,695)**	18,806
Weighted average number of ordinary shares	**236,113,873**	234,367,577

(b) Diluted

Diluted (loss) earnings per share was the same as the basic (loss) earnings per share as there were no dilutive effect from the assumed conversion of the Company's outstanding convertible bonds and redeemable convertible cumulative preference shares since their exercise would result in an decrease in loss and increase in profit per share for the years ended 31 March 2010 and 2009 respectively.

Notes to the Consolidated Financial Statements
(For the year ended 31 March 2010)

17. Property, Plant and Equipment

	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST						
At 1 April 2008	2,804	6,717	8,335	1,771	–	19,627
Exchange realignment	63	114	248	39	–	464
Additions	1,117	2,241	760	3	295	4,416
Disposals/written off	–	(52)	(91)	(417)	–	(560)
Transfer from inventories	–	737	–	–	–	737
Disposal of subsidiaries	(85)	(414)	(222)	–	–	(721)
At 31 March 2009 and 1 April 2009	3,899	9,343	9,030	1,396	295	23,963
Exchange realignment	12	34	28	4	1	79
Additions	–	–	1,421	140	289	1,850
Acquired on acquisition of a subsidiary	–	–	53	–	–	53
Disposals/written off	(453)	–	(1,165)	(259)	–	(1,877)
Reclassification	–	–	501	–	(501)	–
Transfer from inventories	–	731	–	–	–	731
Disposal of subsidiaries	–	–	(117)	–	–	(117)
At 31 March 2010	3,458	10,108	9,751	1,281	84	24,682
ACCUMULATED DEPRECIATION						
At 1 April 2008	1,333	2,419	3,621	266	–	7,639
Exchange realignment	32	79	80	5	–	196
Provided for the year	988	2,497	1,865	356	–	5,706
Elimination on disposals/written off	–	(10)	(53)	(224)	–	(287)
Disposal of subsidiaries	–	(96)	(70)	–	–	(166)
At 31 March 2009 and 1 April 2009	2,353	4,889	5,443	403	–	13,088
Exchange realignment	8	19	17	1	–	45
Provided for the year	968	1,384	1,801	281	–	4,434
Elimination on disposals/written off	(426)	–	(628)	(259)	–	(1,313)
Disposal of subsidiaries	–	–	(54)	–	–	(54)
At 31 March 2010	2,903	6,292	6,579	426	–	16,200
CARRYING VALUES						
At 31 March 2010	555	3,816	3,172	855	84	8,482
At 31 March 2009	1,546	4,454	3,587	993	295	10,875

Notes to the Consolidated Financial Statements
(For the year ended 31 March 2010)

17. Property, Plant and Equipment *(Continued)*

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold improvements	20%
Plant and machinery	20%
Furniture, fixtures and equipment	20%
Motor vehicles	30%

18. Goodwill

	HK$'000
COST	
At 1 April 2008	39,818
Arising on acquisition of additional interests in subsidiaries from minority interests	32,315
Disposal of a subsidiary	(493)
Released on deemed disposal of a subsidiary	(28,107)
At 31 March 2009 and 1 April 2009	43,533
Exchange realignment	100
Arising on acquisition of a subsidiary	1,152
Released on deemed disposal of a subsidiary	(30)
At 31 March 2010	44,755
ACCUMULATED IMPAIRMENT	
At 1 April 2008	12,666
Eliminated on disposal of a subsidiary	(493)
At 31 March 2009, 1 April 2009 and 31 March 2010	12,173
CARRYING VALUES	
At 31 March 2010	32,582
At 31 March 2009	31,360

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

18. Goodwill *(Continued)*

On 20 December 2009, the Group acquired 100% equity interests in Nanjing Wangchi Technology Company Limited ("Nanjing Wangchi") and goodwill of approximately HK$1,152,000 was recognised upon acquisition. Details are set out in note 39.

On 31 July 2009, additional 0.05% equity interests was contributed by the minority interests in Harvest Network Limited (formerly known as Success Gateway Investments Limited, "Harvest Network") and goodwill approximately HK$30,000 was released. Details are set out in note 42(a).

For the purposes of impairment testing, goodwill set out above have been allocated to three individual cash generating units ("CGUs"). The carrying amounts of goodwill as at 31 March 2010 allocated to these units are as follows:

	2010 *HK$'000*	2009 *HK$'000*
B-to-B healthcare services:		
Beijing Universal Medical Assistance Co., Ltd.	**8,567**	8,540
B-to-C consumer services:		
Shanghai Harvest Network Technology Co. Limited and its subsidiary ("Harvest Group")	**22,863**	22,820
Nanjing Wangchi	**1,152**	–
	32,582	31,360

During the two years ended 31 March 2010 and 2009, no further impairments of any of its CGUs containing goodwill was recognised.

The recoverable amounts of the CGUs are determined from value-in-use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and budgeted gross margin and turnover during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on long-term average economic growth rate of the geographical area in which the businesses of the CGUs operate. Budgeted gross margin and turnover are based on past practices and expectations on market development.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

18. Goodwill *(Continued)*

B-to-B healthcare services

The recoverable amount for Beijing Universal Medical Assistance Co., Ltd. were determined based on their value-in-use calculations, covering a five-year budget plan, followed by an extrapolation of expected cash flows at the average growth rates of 26% (2009: 3%) and discount rate of 20% (2009: 12.6%) estimated by the directors of the Company. The management determined the budgeted growth rate based on past performance and its expectation on the relevant industry growth forecasts and does not exceed the average long term growth rate for the relevant industry. The directors of the Company are of the opinion, with reference to the valuation report performed by Avista Valuation Advisory Limited (2009: Norton Appraisals Limited), independent qualified valuers not connected to the Group, which had been prepared based on the cash flow forecast prepared by management, that the recoverable amount of this CGU exceeds its carrying amount in the consolidated statement of financial position and no impairment loss of goodwill is necessary.

B-to-C consumer services

Harvest Group

The recoverable amounts for Harvest Group was determined based on its value-in-use calculations, covering a five-year budget plan, followed by an extrapolation of expected cash flows at the average growth rates of 15% (2009: 3%) and discount rate of 20% (2009: 12.6%) estimated by the directors of the Company. The management determined the budgeted growth rate based on past performance and its expectation on the relevant industry growth forecasts and does not exceed the average long term growth rate for the relevant industry. The directors of the Company are of the opinion with reference to the valuation report performed by Avista Valuation Advisory Limited (2009: Norton Appraisals Limited), independent qualified valuers not connected to the Group, that the recoverable amount of this CGU exceeds its carrying amount in the consolidated statement of financial position and no impairment loss of goodwill is necessary.

Nanjing Wangchi

The recoverable amounts for Nanjing Wangchi was determined based on its value-in-use calculations, covering a five-year budget plan, followed by an extrapolation of expected cash flows at the average growth rates of 38% and discount rate of 20% estimated by the directors of the Company. The management determined the budgeted growth rate based on past performance and its expectation on the relevant industry growth forecasts and does not exceed the average long term growth rate for the relevant industry. The directors of the Company are of the opinion that, the recoverable amount of this CGU exceeds its carrying amount in the consolidated statement of financial position and no impairment loss of goodwill is necessary.

Notes to the Consolidated Financial Statements
(For the year ended 31 March 2010)

19. Other Intangible Assets

	Computer software
	HK$'000
COST	
At 1 April 2008	1,202
Exchange realignment	27
At 31 March 2009 and 1 April 2009	1,229
Acquired on acquisition of a subsidiary	1,694
Exchange realignment	12
At 31 March 2010	2,935
AMORTISATION	
At 1 April 2008	372
Exchange realignment	7
Charge for the year	228
At 31 March 2009 and 1 April 2009	607
Exchange realignment	2
Charge for the year	314
At 31 March 2010	923
CARRYING VALUES	
At 31 March 2010	2,012
At 31 March 2009	622

Computer software are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives of five years.

During the year ended 31 March 2010, there is self-developed software program acquired on acquisition of a subsidiary at fair value amount to approximately HK$1,694,000.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

20. Prepayment for Acquisition of Non-current Assets

	2010	2009
	HK$'000	*HK$'000*
Cost	**6,889**	6,889
Exchange realignment	**179**	156
Less: impairment loss recognised	**(7,068)**	(7,045)
	–	–

Movement in the impairment loss on prepayment for acquisition of non-current assets:

	2010	2009
	HK$'000	*HK$'000*
At 1 April	**7,045**	–
Impairment loss recognised	**–**	7,045
Exchange realignment	**23**	–
At 31 March	**7,068**	7,045

During the year ended 31 March 2009, the Group recognised an impairment loss for prepayment for acquisition of non-current assets of approximately RMB6,200,000 (equivalent to approximately HK$7,045,000). The amount represented the payment for the acquisition of equity interests in 北京維深信業科技發展有限公司(“北京維深”), a company established in the PRC engaged in development of e-healthcare service network in women and children.

During the year ended 31 March 2009, the directors of the Company had followed and assessed the development of 北京維深 during further negotiations with the shareholders of 北京維深 and had carefully considered the business model; revenue generating expectation; cash burn rate and available cash of 北京維深 and overall adverse market conditions for 北京維深 to secure further financing, the directors of the Company considered the potential investment would not be recoverable and full impairment of approximately HK$7,045,000 had been charged to the consolidated statement of comprehensive income for the year ended 31 March 2009.

Notes to the Consolidated Financial Statements
(For the year ended 31 March 2010)

21. Interest in an Associate

	2010	2009
	HK$'000	*HK$'000*
Unlisted investments:		
Cost	**–**	–
Share of post-acquisition profits and other comprehensive income	**–**	1
	–	1
Amount due from an associate	**–**	151
Less: impairment loss recognised	**–**	(151)
	–	1

Movement in the impairment loss on interest in an assoicate:

	2010	2009
	HK$'000	*HK$'000*
At 1 April	(151)	(151)
Written off	151	–
At 31 March	–	(151)

The associate was deregistered during the year ended 31 March 2010.

Notes to the Consolidated Financial Statements
(For the year ended 31 March 2010)

21. Interest in an Associate *(Continued)*

As at 31 March 2009, the Group had interest in the following associate:

Name of entity	Place of incorporation/ registration and operations	Issued and paid-up capital	Class of shares held	Percentage of interest in ownership						Principal activities
				Group's effective interest		Held by the Company		Held by a subsidiary		
				2010	2009	**2010**	2009	**2010**	2009	
Moment Touch Management Limited	British Virgin Islands/ Hong Kong	US$100	Ordinary	**-**	40%	**-**	–	**-**	40%	Marketing/ sales of cosmetic products

Summarised financial information in respect of the Group's associate is set out below:

	2010	2009
	HK$'000	*HK$'000*
Total assets	**–**	1
Total liabilities	**–**	(180)
Net liabilities	**–**	(179)
Revenue	**–**	–
Loss for the year	**–**	(8)

The Group had not recognised its share of loss of the associate for the year ended 31 March 2009 amounting to HK$3,000. The accumulated losses not recognised were HK$72,000 as at 31 March 2009.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

22. Inventories

	2010	2009
	HK$'000	HK$'000
Raw materials	195	290
Finished goods	22,529	26,200
	22,724	26,490

23. Trade Receivables

	2010	2009
	HK$'000	HK$'000
Trade receivables	47,622	48,624
Less: allowance for doubtful debts	(9,020)	(8,865)
	38,602	39,759

The normal credit period granted to customers of the E-distribution of mobile pre-charge etc. is 3 to 7 days. The credit terms granted to other customers generally ranged from 10 to 90 days.

The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the reporting date.

	2010	2009
	HK$'000	HK$'000
Within 30 days	34,406	36,161
31 to 60 days	515	271
61 to 90 days	929	620
91 to 120 days	546	1,979
Over 120 days	2,206	728
Total	38,602	39,759

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

23. Trade Receivables *(Continued)*

Included in the Group's trade receivables balances are debtors with aggregate carrying amount of HK$2,873,000 (31 March 2009: HK$2,294,000) which were past due as at the reporting date for which the Group has not provided for impairment loss.

Aging of trade receivables which are past due but not impaired:

	2010 HK$'000	2009 HK$'000
Within 90 days	**368**	784
91 to 120 days	**299**	1,264
Over 120 days	**2,206**	246
	2,873	2,294

Trade receivables that were past due but not impaired were related to a number of independent customers for whom there is no recent history of default. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group did not hold any collateral over these balances.

Movement in the allowance for doubtful debts:

	2010 HK$'000	2009 HK$'000
At 1 April	**8,865**	8,295
Exchange realignment	**25**	166
Impairment loss recognised	**130**	404
At 31 March	**9,020**	8,865

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of approximately HK$9,020,000 (2009: HK$8,865,000). The individually impaired receivables related to customers who were in financial difficulties. The Group did not hold any collateral over these balances. The factors considered by management in determining the allowance are described in note 5.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

23. Trade Receivables *(Continued)*

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	2010	2009
	HK$'000	*HK$'000*
RMB	**36,342**	39,759
US$	**2,260**	–
	38,602	39,759

24. Prepayments, Deposits and Other Receivables

	2010	2009
	HK$'000	*HK$'000*
Other receivables	**22,182**	18,694
Less: impairment loss recognised	**(11,551)**	(7,964)
Prepayments and deposits	**5,724**	4,297
	16,355	15,027

At the end of each reporting period, the Group's other receivables were individually determined to be impaired. The individually impaired other receivables are recognised based on the credit history, such as financial difficulties or default in payments, and current market conditions. Consequently, specific impairment loss was recognised. The Group did not hold any collateral over these balances. The factors considered by management in determining the impairment are described in note 5.

Movement in the impairment loss on other receivables:

	2010	2009
	HK$'000	*HK$'000*
At 1 April	**7,964**	7,902
Impairment loss recognised	**3,587**	62
At 31 March	**11,551**	7,964

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

24. Prepayments, Deposits and Other Receivables *(Continued)*

The carrying amounts of the Group's prepayments, deposits and other receivables are denominated in the following currencies:

	2010	2009
	HK$'000	*HK$'000*
RMB	**10,984**	11,195
HK$	**1,802**	3,201
US$	**2,459**	631
Euro	**1,110**	–
	16,355	15,027

25. Loan Receivables

	2010	2009
	HK$'000	*HK$'000*
Secured term loans	**27,051**	27,051
Unsecured term loans	**12,913**	12,884
	39,964	39,935
Less: Impairment loss recognised	**(39,964)**	(39,935)
	–	–

The movement in the impairment loss on loan receivables:

	2010	2009
	HK$'000	*HK$'000*
At 1 April	**39,935**	21,026
Exchange realignment	**29**	–
Impairment loss recognised	**–**	18,909
At 31 March	**39,964**	39,935

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

25. Loan Receivables *(Continued)*

Notes:

Secured term loans

Included in loan receivables are secured term loans of approximately HK$21,026,000 represented a loan receivable with principal amount of US$2,700,000, secured by, as collateral, a pledge of the 100% equity interest in Hamilton Apex Technology Ventures, L.P. owned by the borrower. Full impairment on the loan receivable had been made in previous years.

Also included in loan receivables are secured term loans of approximately HK$6,000,000 secured by, as collateral, a pledge of the 80% equity interest in Smart Business Enterprises Limited owned by the borrower. The loans were originally due for repayment in 2005.

Despite of repeated demands made by the Group, the borrower failed to make repayment.

At 31 March 2009, the directors of the Company are of the opinion that the recoverability of the outstanding balances is uncertain due to the prolonged aging and without any settlement for years. Accordingly, impairment loss of HK$6,000,000 has been recognised during the year ended 31 March 2009.

Unsecured term loans

During the year ended 31 March 2009, the Group had assessed the recoverability of loan receivables individually for impairment. Despite repeated demands made by the Group, the Group was unable to receive any settlements for the outstanding loan receivables. In the opinion of the directors, the loan receivables are irrecoverable, and full impairment on the outstanding balance of approximately HK$12,884,000 had been made accordingly.

The loans were made to independent third parties and were originally repayable within one year; however, due to default in payment, the loan receivables had become repayable on demand. The interest rates of the loan receivables were as follows:

	2010	2009
Secured term loans	**5.5% – 5.75%**	5.5% – 5.75%
Unsecured term loans	**5% – 8%**	5% – 8%

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

26. Financial Assets at Fair Value Through Profit or Loss

	2010	2009
	HK$'000	*HK$'000*
Equity securities, at fair value		
Listed in Hong Kong	–	40
Listed outside Hong Kong	–	16
	–	56

At 31 March 2009, the carrying amounts of the above financial assets are classified as held for trading investments and were disposed of in the year ended 31 March 2010.

At 31 March 2009, the investments included above represent investments in listed equity securities that offer the Group the opportunity for return through fair value gains. The fair values of listed securities are based on quoted market prices.

27. Restricted Bank Balances

The restricted bank balances represented the balances of the proceeds from the issuance of convertible preference shares by Harvest Network. Pursuant to the subscription agreement signed by Harvest Network and subscribers during the year ended 31 March 2009, the usage of the proceeds raised from the issuance of the convertible preference shares had been specified for the usage in Harvest Network's redemption of its own shares from its immediate holding company, and as the general working capital and the funding for the expansion of its operations and business in products and geography in the B-to-C consumer services. As at 31 March 2010, there is approximately HK$42,436,000 of restricted bank balances pledged to bank to secure bank loan repayable within one year. The restricted bank balances carry interest at market rates ranged from 0.36% to 1.35% (2009: 0.6% to 1.35%) per annum.

The carrying amounts of the Group's restricted bank balances are denominated in the following currencies:

	2010	2009
	HK$'000	*HK$'000*
RMB	**58,863**	–
HK$	**98**	–
US$	**94,933**	100,042
	153,894	100,042

Notes to the Consolidated Financial Statements
(For the year ended 31 March 2010)

28. Bank Balances and Cash

The carrying amounts of the Group's bank balances and cash are denominated in the following currencies:

	2010	2009
	HK$'000	*HK$'000*
RMB	**12,906**	25,076
HK$	**1,690**	1,384
US$	**5,524**	29,931
Euro	**121**	–
	20,241	56,391

Conversion of RMB denominated balances into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

Bank balances carry interest at market rates which ranged from 0.36% to 1.35% (2009: 0.60% to 1.35%) per annum.

29. Trade Payables

The following is an aged analysis of trade payables presented based on the date of receipt of goods at the end of the reporting period.

	2010	2009
	HK$'000	*HK$'000*
Within 30 days	**1,189**	762
31 to 60 days	**240**	–
61 to 90 days	**64**	–
91 to 120 days	**174**	–
Over 120 days	**403**	–
Total	**2,070**	762

Notes to the Consolidated Financial Statements
(For the year ended 31 March 2010)

29. Trade Payables *(Continued)*

The average credit period on purchases of goods ranged from 30 to 60 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit time frame.

The carrying amounts of the Group's trade payables are denominated in the following currencies:

	2010 *HK$'000*	2009 *HK$'000*
RMB	**960**	762
HK$	**1,110**	–
	2,070	762

30. Other Payables and Accrued Expenses

	2010 *HK$'000*	2009 *HK$'000* (Restated)
Deposit received	**4,687**	6,012
Receipt in advance	**8,962**	7,696
Payable for acquisition of a subsidiary *(Note 39)*	**2,394**	–
Others	**17,318**	17,654
	33,361	31,362

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

30. Other Payables and Accrued Expenses *(Continued)*

Deposits received represented deposits for the point-of-sale ("POS") terminals placed at the network of retail outlets for the facilitation of the Group's B-to-C consumer services.

Payable for acquisition of a subsidiary represented the consideration payable to independent third party regarding the acquisition of a subsidiary, details of the acquisition are stated in note 39.

The carrying amounts of the Group's other payables and accrued expenses are denominated in the following currencies:

	2010 *HK$'000*	2009 *HK$'000*
RMB	**20,370**	18,204
HK$	**11,881**	12,039
US$	**–**	1,119
Euro	**1,110**	-
	33,361	31,362

31. Amounts due to Directors

The amounts due to directors are unsecured, interest free and repayable on demand.

32. Convertible Bonds

	2010 *HK$'000*	2009 *HK$'000*
Liability component of convertible bonds		
Convertible bonds issued with equity component *(Note a)*	**44,320**	42,943
Convertible bonds issued with derivative component *(Note b)*	**7,827**	10,416
	52,147	53,359
Derivative component of convertible bonds *(Note b)*	**6,046**	5,220

The liability component of the convertible bonds is repayable on demand.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

32. Convertible Bonds *(Continued)*

Notes:

(a) Convertible bonds issued with equity component

On 19 May 2005, the Company issued CB1 with a nominal value of US$6,600,000 due on 18 May 2009. CB1 carries interest at 3% per annum payable semi-annually in arrears with the first interest payment due on 18 November 2005 and the last interest payment due on 18 May 2009. CB1 entitles the holder to convert the bonds into new ordinary shares of the Company at a conversion price, subject to adjustment, of HK$2.525 per share during the period from 19 May 2005 to 18 May 2009. In addition, if CB1 remain outstanding on the maturity date, the Company will redeem the principal of CB1 at 100% of their face value.

The net proceeds received for the issue of CB1 have been split between the liability component and an equity component. The movement of the liability component is as follows:

	2010	2009
	HK$'000	*HK$'000*
Carrying amount at 1 April	**42,943**	44,565
Interest charged for the year	**1,377**	2,193
Interest paid for the year	**–**	(1,347)
Repurchase during the year	**–**	(2,468)
Carrying amount at 31 March	**44,320**	42,943

The effective interest rate of the liability component of CB1 is 5.135% per annum.

In August 2008, the Group agreed to repurchase CB1 with principal amount of approximately US$320,000 (equivalent to approximately HK$2,468,000) at a consideration of approximately US$128,000 (equivalent to approximately HK$998,400) and the settlement took place on 29 October 2008.

On 18 May 2009, CB1 had matured, however, due to liquidity problem, the Group was unable to redeem CB1 at maturity. The Group's default in the redemption on the convertible bonds had triggered the Company's early redemption obligation of the convertible bonds and the redeemable convertible cumulative preference shares. However, the major holder of CB1 consented to conditionally extend the maturity of CB1 for three years if the Group can fulfill the conditions requested by the major holder of CB1. Moreover, the directors of the Company had consulted with legal advisor and considered that the conversion right of CB1 as at 31 March 2010 was still effective.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

32. Convertible Bonds *(Continued)*

Notes: (Continued)

(b) Convertible bonds issued with derivative component

	2010 HK$'000	2009 HK$'000
Liability component		
Convertible bonds due on 1 June 2011 *(Note i)*	**7,827**	10,416
Derivative component		
Convertible bonds due on 1 June 2011 *(Note i)*	**6,046**	5,220

Note (i)

On 1 June 2008, the Company issued CB3 with a nominal value of HK$20,000,000 due on 1 June 2011. CB3 carries interests at 2% per annum payable semi-annually in arrears with the first interest payment due on 1 December 2008 and the last interest payment due on 1 June 2011. During the period from 1 June 2008 to 1 June 2011, CB3 entitles the holder to convert the bonds into new ordinary shares of the Company at the lower of the following:

(i) the initial conversion price, subject to adjustment, of HK$1.16; and

(ii) the volume-weighted average price of the ordinary shares of the Company, subject to adjustment, for the twenty trading days ending on the day immediately preceding the date of a relevant conversion notice.

In addition, if CB3 remain outstanding on the maturity date or the volume-weighted average price of the ordinary shares of the Company for the twenty trading days (the "Share Price") is ever at or below HK$0.30 (the "Threshold"), the Company will be required to redeem the principal of CB3 at 100% of their face value on the demand of the holder(s) of the CB3. Summaries are disclosed in the Company's circular dated 30 April 2008 and details are contained in the instrument of the CB3 issued by the Company on 1 June 2008. Since the Share Price triggered the Threshold HK$0.30 in the year ended 31 March 2009, the holder of the CB3 has the right to ask the Company to redeem the CB3 on demand, and relevant disclosure was made in the Company's announcement dated 31 March 2009. Accordingly, CB3 had been reclassified to current liabilities since year ended 31 March 2009.

Notes to the Consolidated Financial Statements
(For the year ended 31 March 2010)

32. Convertible Bonds *(Continued)*

Notes: (Continued)

(b) Convertible bonds issued with derivative component *(Continued)*

Note (i) (Continued)

The fair value of the derivative component, representing the conversion right entitled to the holders of CB3, was estimated at the issuance and the end of each reporting period using an option pricing model and the change in fair value of that component is recognised in profit or loss.

The net proceeds received from the issue of CB3 have been split between the liability component and derivative component as follows:

	2010 HK$'000	2009 HK$'000
Liability component		
At 1 April/date of issue	**10,416**	7,817
Interest charged for the year	**3,895**	2,599
Conversion during the year *(Note)*	**(6,484)**	–
At 31 March	**7,827**	10,416

	2010 HK$'000	2009 HK$'000
Derivative component		
At 1 April/date of issue	**5,220**	12,183
Fair value loss (gain)	**6,040**	(6,963)
Conversion during the year	**(5,214)**	–
At 31 March	**6,046**	5,220

Note: The holders of CB3 have exercised the conversion right to convert the convertible bonds into total 27,654,000 numbers of ordinary shares in four conversions on 4, 8, 9 and 15 March 2010. The principal amount after the conversion is approximately HK$10,381,000. As the directors of the Company consider the fluctuation of the market share price of the shares of the Company during the above period is immaterial, therefore, valuation dated on 28 February 2010 will adopted as basis for the purpose of calculating the conversion of ordinary shares. The fair value of the derivative component at 28 February 2010 was revalued based on the valuations by Avista Valuation Advisory Limited, an independent qualified valuer not connected to the Group.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

32. Convertible Bonds *(Continued)*

Notes: (Continued)

(b) Convertible bonds issued with derivative component *(Continued)*

Note (i) (Continued)

The effective interest rate of the liability component of CB3 is 41.025% per annum. for the year ended 31 March 2010 and 2009.

The derivative component of CB3 was revalued at 31 March 2010 and 28 February 2010 based on valuations by Avista Valuation Advisory Limited (31 March 2009: based on valuation by Norton Appraisals Limited), independent qualified valuers not connected to the Group, determined using Binomial Model. The significant inputs to the models were as follows:

	31 March 2010	**28 February 2010**	31 March 2009
Share price of underlying shares	**HK$0.41**	**HK$0.46**	HK$0.20
Exercise price	**HK$0.35**	**HK$0.41**	HK$1.16
Expected volatility	**108.20%**	**118.6%**	112.41%
Expected life	**1.17 years**	**1.25 years**	2.17 years
Risk-free rate	**0.302%**	**0.312%**	1.40%
Expected dividend yield	**Nil**	**Nil**	Nil

Note (ii)

On 7 August 2006, the Company issued convertible bonds with a nominal value of HK$18,400,000 due on 6 August 2010 ("CB2"). CB2 carries interests at 2% per annum payable semi-annually in arrears with the first interest payment due on 6 February 2007 and the last interest payment due on 6 August 2010. During the period from 7 August 2006 to 6 August 2010, CB2 entitles the holder to convert the bonds into new ordinary shares of the Company at the lower of the following:

(i) the initial conversion price, subject to adjustment, of HK$1.16, but in any case the adjustment shall be no lower than HK$0.30; and

(ii) the volume-weighted average price of the ordinary shares of the Company, subject to adjustment, for the twenty trading days ending on the day immediately preceding the date of a relevant conversion notice.

In addition, if CB2 remain outstanding on the maturity date or the volume-weighted average price of the ordinary shares of the Company for the twenty trading days (the "Share Price") is ever at or below HK$0.30, the Company will be required to redeem the principal of CB2 at 100% of their face value on the demand by the holder(s) of the CB2. Summaries are disclosed in the Company's circular dated 16 June 2006 and details are contained in the instrument of the CB2 issued by the Company on 7 August 2006.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

32. Convertible Bonds *(Continued)*

Notes: (Continued)

(b) Convertible bonds issued with derivative component *(Continued)*

Note (ii) (Continued)

The fair value of the derivative component, representing the conversion right entitled to the holders of CB2, was estimated at the issuance and the end of each reporting period based on valuations by Savills Valuation and Professional Services Limited, an independent qualified valuer not connected with the Group, determined using Binomial Model and the change in fair value of that component is recognised in profit or loss.

The movement of the liability and derivative components of CB2 during the year is set out below:

	2010	2009
	HK$'000	*HK$'000*
Liability component		
At 1 April	–	17,641
Interest charged for the year	–	462
Repurchase during the year	–	(18,103)
At 31 March	–	–
Derivative component		
At 1 April	–	4,237
Fair value gain	–	(1,748)
Repurchase during the year	–	(2,489)
At 31 March	–	–

The effective interest rate of the liability component of CB2 is 5.479% per annum.

Since the Share Price triggered the floor threshold HK$0.30, on 31 October 2008, the Group redeemed the entire CB2 at a consideration of approximately HK$20,592,000 on the demand by the holder of CB2.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

33. Redeemable Convertible Cumulative Preference Shares

On 28 July 2006, the Company issued 15,000 redeemable convertible cumulative preference shares of US$0.01 each for a total cash consideration of US$15,000,000 (equivalent to HK$117,000,000). The PS carries dividend at 2% per annum, subject to adjustment to 5% on certain special events payable semi-annually in arrears. The maturity date of the PS is falling on the fifth anniversary of 28 July 2006 or such later date, not being later than the seventh anniversary of 28 July 2006, as may be agreed in writing between the Company and the holders of the PS. At any time from 28 July 2006 to maturity date, each PS entitles the holder to convert the preference shares into new ordinary shares of the Company at the lower of the following:

(a) the initial conversion price, subject to adjustment, of HK$1.16; and

(b) the volume-weighted average price of the ordinary shares of the Company, subject to adjustment, for the twenty trading days ending on the day immediately preceding the date of a relevant conversion notice.

In addition, the holder of the PS shall have the right at any time to require the Company to redeem all or any of the outstanding PS held by it at the early redemption amount of such number of PS so redeemed, provided that the holder of the PS may not exercise such right prior to the maturity date if and for so long as any of certain special events shall not have occurred. Details are disclosed in the Company's circular dated 16 June 2006.

Special events included:

(i) any consolidation, amalgamation or merger of the Company with any other corporation which results in the Company ceasing to exist as an independent legal entity or any sale of all or substantially all of the assets of the Company or any reorganisation or any other transaction where there is or which will result in a change in control (as defined in the Takeovers Code) of the control of the Company;

(ii) material default by the Company or any of its subsidiaries in the performance, observance or fulfilment of any of the obligations, covenants or conditions contained in any material agreement or instrument to which any of them is a party and, if such default is capable of being remedied, fails to remedy such default within 10 days of being required in writing to do so by any of the holder to the preference shares ("Preference Shareholders");

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

33. Redeemable Convertible Cumulative Preference Shares *(Continued)*

(iii) the persons who are directors on the issue date or persons appointed to act as directors in their stead (the "Replacement Directors"), with the approval of all of the other persons who are acting as directors at the time of appointment of the Replacement Directors, cease to represent a majority in number of the persons acting as directors at the relevant time;

(iv) the acceleration of the maturity of any other present or future indebtedness of the Company or any of its subsidiaries exceeding US$1,500,000 in aggregate principal amount outstanding (or its equivalent in any other currency) by reason of an event of default (as described and specified therein) or any such indebtedness exceeding US$1,500,000 (or its equivalent in any other currency) is not paid within any applicable grace period provided for or, if none, on the due date therefore;

(v) a Directors' resolution is passed for the winding-up, insolvency, administration, reorganisation, reconstruction, dissolution or bankruptcy of the Company or for the appointment of a liquidator, receiver, administrator, trustee or similar officer of the Company or of all or a material part of its business or assets;

(vi) an effective resolution is passed for the winding-up, insolvency, administration, reorganisation, reconstruction, dissolution or bankruptcy of the Company or for the appointment of a liquidator, receiver, administrator, trustee or similar officer of the Company or of all or a material part of its business or assets; a petition is presented or a proceeding is commenced for the winding-up, insolvency, administration, reorganisation, reconstruction, dissolution or bankruptcy of the Company or for the appointment of a liquidator, receiver, administrator, trustee or similar officer of the Company or of all or a substantial part of its business or assets and is not discharged within 5 days; if the Company stops or suspends payments to its creditors generally or is unable to admits its inability to pay its debts as they fall due or seeks to enter into any composition or other arrangement with its creditors or is declared or becomes bankrupt or insolvent; or if a creditor takes possession of all or a material part of the business or assets of the Company or any execution or other legal process is enforced against the business or any substantial asset of the Company and is not discharged within 5 days;

Notes to the Consolidated Financial Statements
(For the year ended 31 March 2010)

33. Redeemable Convertible Cumulative Preference Shares *(Continued)*

(vii) the listing or trading of the ordinary share on the Stock Exchange (or any stock exchange other than the Hong Kong Stock Exchange on which the ordinary shares, if not then listed on the Hong Kong Stock Exchange, are listed, (the "Alternative Stock Exchange"), as the case may be) is revoked, withdrawn or suspended for a continuous period of 15 trading days;

(viii) material breach by the Company of any of its representations, warranties, covenants or undertakings in the agreement and, if such breach is capable of being remedied, fails to remedy such breach within 10 days of being required in writing to do so by any of the Preference Shareholders;

(ix) material breach by the Company of any of the covenants or undertakings as set forth in Bye-law 9A(12) and, if such breach is capable of being remedied, fails to remedy such breach within 10 days of being required in writing to do so by any of the Preference Shareholders; or

(x) the auditors of the Company issue a qualified opinion in respect of any audit report of the Company.

As mentioned in note 32 above, the Group was unable to redeem CB1 which had been matured on 18 May 2009, the Company was in breach of the special event as mentioned in note (ii) above. The Company also breached the special event in note (x) above as the auditor's opinion of the Group was disclaimed for the year ended 31 March 2009. It triggered the Company's early redemption obligation of the PS. Accordingly, the PS had been reclassified to current liabilities since the year ended 31 March 2009.

The fair value of the derivative component, representing the conversion right entitled to the holders of PS, was estimated at the issuance and the end of each reporting period using Binomial Model and the change in fair value of that component is recognised in profit or loss.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

33. Redeemable Convertible Cumulative Preference Shares *(Continued)*

The movement of the liability and derivative components of PS during the year is set out below:

	2010	2009
	HK$'000	*HK$'000*
Liability component		
At 1 April	**100,860**	90,607
Exchange realignment	**(199)**	–
Interest charged for the year	**57,965**	10,253
Loss on recalculation of liability component of redeemable convertible cumulative preference shares	**18,194**	–
At 31 March	**176,820**	100,860
Derivative component		
At 1 April	**25,110**	48,559
Fair value gain	**(18,871)**	(23,449)
At 31 March	**6,239**	25,110

On 18 May 2009, due to the Group's default in the redemption on the CB1, the Company's early redemption obligation of PS was triggered. Details are set out in note 32. The liability component included the early redemption obligation at that day is approximately HK$114,218,000 with effective interest rate of 60% per annum.

As at 31 March 2010, the effective interest rate of the liability component of PS is 60% (2009: 11.965%) per annum.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

33. Redeemable Convertible Cumulative Preference Shares *(Continued)*

The derivative component of PS were revalued at 31 March 2010 and 31 March 2009 based on valuations by Avista Valuation Advisory Limited and Norton Appraisals Limited respectively, independent qualified valuers not connected to the Group, determined using Binomial Model. The significant inputs to the models were as follows:

	2010	2009
Share price of underlying shares	**HK$0.41**	HK$0.20
Exercise price	**HK$0.35**	HK$1.16
Expected volatility	**114.80%**	145.17%
Expected life	**1.33 years**	2.33 years
Risk-free rate	**0.383%**	1.46%
Expected dividend yield	**Nil**	Nil

34. Secured Bank Loans

The secured bank loans bear fixed interest rate at 4.617% per annum and repayable within one year.

The bank loans are secured by term deposit approximately to HK$42,436,000.

35. Deferred Tax

During the year ended 31 March 2010, deferred tax liabilities of approximately HK$423,000 was recognised from the fair value adjustment on intangible assets from the acquisition of a subsidiary, details were set out in note 39.

At the end of the reporting period, the Group has unused tax losses of approximately HK$69,233,000 (2009: HK$60,881,000) and other temporary differences of HK$19,272,000 (2009: HK$15,708,000) that are available for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses and other temporary differences due to unpredictability of future profit streams. Included in unrecognised tax losses are losses of approximately HK$44,657,000 (2009: HK$28,931,000) that will be expired during the period by 2014. Other losses may be carried forward indefinitely.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

36. Share Capital

	Number of shares	Share capital
		HK$'000
Authorised:		
At 1 April 2008, 31 March 2009 and 31 March 2010		
Ordinary shares of HK$0.1 each	5,000,000,000	500,000
Issued and fully paid:		
Ordinary shares of HK$0.1 each		
At 1 April 2008 and 31 March 2009	234,367,577	23,437
Issue of new shares through conversion of convertible bonds *(Note)*	27,654,000	2,765
At 31 March 2010	262,021,577	26,202

Note: In March 2010, the holders of CB3 converted HK$9,618,660 convertible bonds into 27,654,000 ordinary shares of HK$0.1 each in the Company. These shares rank pari passu in all respect with other shares in issue. The details of conversion are as follow:

Conversion date	No. of ordinary shares of HK$0.1 each	Price per share	Conversion principal amount
		HK$	*HK$*
4 March 2010	7,020,000	0.36	2,527,200
8 March 2010	8,250,000	0.3492	2,880,900
9 March 2010	5,385,000	0.34	1,830,900
15 March 2010	6,999,000	0.34	2,379,660
	27,654,000		9,618,660

Notes to the Consolidated Financial Statements
(For the year ended 31 March 2010)

37. Statement of Financial Position of the Company

	Notes	2010 HK$'000	2009 HK$'000
Non-current asset			
Investments in subsidiaries		**–**	–
Current assets			
Prepayments, deposits and other receivables		**1,703**	1,709
Amounts due from subsidiaries	*(a)*	**39,604**	191,350
Bank balances and cash		**536**	226
		41,843	193,285
Current liabilities			
Other payables and accrued expenses		**8,506**	7,004
Amounts due to subsidiaries	*(a)*	**17,944**	38,543
Derivative component of convertible bonds		**6,046**	5,220
Derivative component of redeemable convertible cumulative preference shares		**6,239**	25,110
Liability component of convertible bonds		**61,478**	62,316
Liability component of redeemable convertible cumulative preference shares		**176,820**	100,860
		277,033	239,053
Net current liabilities		**(235,190)**	(45,768)
Capital and reserves			
Share capital		**26,202**	23,437
Reserves	*(b)*	**(261,392)**	(69,205)
		(235,190)	(45,768)

Notes to the Consolidated Financial Statements
(For the year ended 31 March 2010)

37. Statement of Financial Position of the Company *(Continued)*

Notes:

(a) The amounts are unsecured, non-interest bearing and repayable on demand.

(b) The movement of reserves of the Company is as follows:

	Share premium	Contributed surplus	Convertible bonds reserve	Share options reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2008	212,308	57,124	3,592	148	(354,150)	(80,978)
Profit for the year and total comprehensive income for the year	–	–	–	–	11,773	11,773
At 31 March 2009 and 1 April 2009	212,308	57,124	3,592	148	(342,377)	(69,205)
Loss for the year and total comprehensive expenses for the year	–	–	–	–	(201,120)	(201,120)
Conversion of convertible bonds	8,933	–	–	–	–	8,933
At 31 March 2010	221,241	57,124	3,592	148	(543,497)	(261,392)

38. Share Options Schemes

Pursuant to the share option scheme adopted by the Company in 2001 (the "Old Scheme"), the Company may grant options to any directors or full time employees of the Company or its subsidiaries to subscribe for shares in the Company at a subscription price which is the higher of 80% of the average closed price of the Company's shares for the five trading days immediately preceding the date of grant or the nominal value of the Company's shares. The Old Scheme was replaced by the Company's existing share option scheme (the "New Scheme") which was adopted pursuant to a resolution passed on 8 April 2002, and will expire on 7 April 2012. All outstanding options continue to be valid and exercisable in accordance with the terms of the Old Scheme.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

38. Share Options Schemes *(Continued)*

Under the New Scheme, the Board of Directors of the Company may grant options to eligible officers and employees, including directors of the Company and its subsidiaries ("Eligible Persons"), to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to outside third parties who (i) have previously been and continue to be retained by the Group to provide business, legal or tax consultancy services or other professional services, whose expertise is valuable to the business development of the Group; or (ii) introduce investment opportunities to the Group; or (iii) contribute by way of introduction of new business to the Group.

The maximum number of shares in respect of which options may be granted under the New Scheme and any other schemes of the Company is not permitted to exceed 10% of the shares of the Company in issue at the adoption date. The Company may seek approval by the Company's shareholders in general meeting for granting options beyond the 10% limit, provided that the options in excess of the limit are granted only to Eligible Persons specifically identified by the Company before such approval is sought. Pursuant to a special resolution passed by the shareholders at a special general meeting held on 17 February 2005, the maximum number of options that can be granted by the Company to the Eligible Persons has been refreshed to 10% of number of shares in issue at the date of passing the special resolution. The total number of the shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other schemes of the Company must not exceed 30% of the shares of the Company in issue from time to time.

The number of share in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital in issue or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up within 28 days from the date of grant. Upon acceptance of the options, the Eligible Person shall pay HK$1 to the Company by way of consideration for the grant. Options may be exercises at any time from the date of grant to the expiry date of the New Scheme. The exercise price is determined by the directors of the Company, and shall be the highest of the closing price of the Company's shares on the date of grant, the average closing price of the shares for the five trading days immediately preceding the date of grant and the nominal value of the Company's shares.

Notes to the Consolidated Financial Statements
(For the year ended 31 March 2010)

38. Share Options Schemes *(Continued)*

Particulars of share options granted by the Company as at 31 March 2010 and 2009 are as follows:

Option type	Date of grant	Exercisable period From	Exercisable period To	Exercise price *HK$*
A	31 August 2001	31 August 2001	15 May 2011	8.6
B	2 February 2004	2 February 2004	7 April 2012	3.4
C	3 March 2005	3 March 2005	7 April 2012	2.325
D	20 June 2005	20 June 2005	7 April 2012	2.33

The following tables summarise the movements in the Company's share options during the year ended 31 March 2010:

Old scheme

		Number of share options		
	Option type	Outstanding at 1 April 2009	Lapsed/ Exercised	Outstanding at 31 March 2010
Directors	A	25,000	–	25,000

Notes to the Consolidated Financial Statements
(For the year ended 31 March 2010)

38. Share Options Schemes *(Continued)*

New scheme

		Number of share options			
	Option type	Outstanding at 1 April 2009	Granted	Lapsed *(Note)*	Outstanding at 31 March 2010
Directors	B	3,000,000	–	(1,500,000)	1,500,000
	C	5,310,000	–	(2,100,000)	3,210,000
Total of directors		8,310,000	–	(3,600,000)	4,710,000
Employees	B	60,000	–	–	60,000
	C	270,000	–	–	270,000
Total of employees		330,000	–	–	330,000
Advisors and consultants	B	4,144,000	–	–	4,144,000
	C	4,422,000	–	–	4,422,000
	D	99,000	–	–	99,000
Total of advisors and consultants		8,665,000	–	–	8,665,000
Total		17,305,000	–	(3,600,000)	13,705,000

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

38. Share Options Schemes *(Continued)*

The following tables summarise the movements in the Company's share options during the year ended 31 March 2009:

Old scheme

	Option type	Outstanding at 1 April 2008	Lapsed/ Exercised	Outstanding at 31 March 2009
		Number of share options		
Directors	A	25,000	–	25,000

New scheme

	Option type	Outstanding at 1 April 2008	Granted	Lapsed	Outstanding at 31 March 2009
		Number of share options			
Directors	B	3,000,000	–	–	3,000,000
	C	5,310,000	–	–	5,310,000
Total of directors		8,310,000	–	–	8,310,000
Employees	B	60,000	–	–	60,000
	C	270,000	–	–	270,000
Total of employees		330,000	–	–	330,000
Advisors and consultants	B	9,046,000	–	(4,902,000)	4,144,000
	C	8,622,000	–	(4,200,000)	4,422,000
	D	99,000	–	–	99,000
Total of advisors and consultants		17,767,000	–	(9,102,000)	8,665,000
Total		26,407,000	–	(9,102,000)	17,305,000

Notes to the Consolidated Financial Statements
(For the year ended 31 March 2010)

38. Share Options Schemes *(Continued)*

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2010		2009	
	Weighted average exercise price in HK$ per share	**Number of share options**	Weighted average exercise price in HK$ per share	Number of share options
At 1 April	**2.781**	**17,330,000**	2.823	26,432,000
Lapsed	**2.773**	**(3,600,000)**	2.904	(9,102,000)
At 31 March	**2.783**	**13,730,000**	2.781	17,330,000

The options outstanding at the end of the year have a weighted average remaining contractual life of 2.02 years (2009: 3.09 years).

Note: The grantee of the share options is no longer the director of the Group upon resignation on 25 August 2009. Those share options lapsed on the cessation of the employment with the Group.

Notes to the Consolidated Financial Statements
(For the year ended 31 March 2010)

39. Acquisition of a Subsidiary

On 20 December 2009, the Group acquired 100% equity interests in Nanjing Wangchi from an independent third party for a consideration of RMB3,000,000 (equivalent to HK$3,405,000). This acquisition has been accounted for using purchase method. The amount of goodwill arising as a result of the acquisition was approximately HK$1,152,000.

The net assets acquired in the transaction, and the goodwill arising are as follows:

	Acquiree's carrying amount before combination	**Fair value adjustment**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*
Plant and equipment	53	–	53
Intangible assets	–	1,694	1,694
Inventories	600	–	600
Trade receivables	325	–	325
Prepayments, deposits and other receivables	69	–	69
Bank balances and cash	195	–	195
Other payables and accrued expenses	(260)	–	(260)
Deferred tax liabilities	–	(423)	(423)
	982	1,271	2,253
Goodwill			1,152
			3,405
Total consideration satisfied by:			
Cash paid during the year			1,011
Consideration payable *(Note)*			2,394
			3,405
Net cash outflow arising on acquisition:			
Cash consideration paid during the year			(1,011)
Bank balances and cash acquired			195
			(816)

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

39. Acquisition of a Subsidiary *(Continued)*

Note: At 31 March 2010, the Group only paid RMB900,000 (equivalent to HK$1,011,000) to the vendor, however, an extension agreement was signed between the Group and the vendor in December 2009, that mutually agreed to extend the payment date of the balance consideration amount to RMB2,100,000 (equivalent to HK$2,394,000) not late than 30 June 2010. The Group has paid the remaining consideration to the vendor on 28 June 2010.

Goodwill arose in the acquisition of Nanjing Wangchi because the consideration paid for the acquisition effectively included amounts in relation to the benefit of expected revenue growth and future market development. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Nanjing Wangchi contributed approximately HK$178,000 and HK$707,000 to the Group's revenue and loss for the period between the date of acquisition and the end of the reporting period.

If the acquisition had been completed on 1 April 2009, the Group's revenue for the period would have been HK$2,777,042,000, and loss for the period would have been HK$99,212,000. The pro forma information is for illustrative purposes only and is not necessary an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 April 2009, nor is it intended to be a projection of future results.

40. Acquisition of Additional Interests in Subsidiaries

(i) On 28 February 2008, Harvest Network, a subsidiary of the Company, entered into a provisional sale and purchase agreement with Panjinfenyuan Technology Investment Limited ("Panjinfenyuan") whereby Harvest Network agreed to acquire the remaining 30% equity interest in Shanghai Harvest from the minority equity holder, Panjinfenyuan, at a consideration of HK$41,500,000. On completion of the acquisition, Shanghai Harvest becomes a subsidiary of the Company. Details of the acquisition were set out in the Company's circular dated 30 April 2008. The transaction was approved by an ordinary resolution passed at the special general meeting held on 20 May 2008.

The consideration for the acquisition was satisfied by HK$21,500,000 in cash and HK$20,000,000 satisfied by the issuance of convertible bonds, details of which are set out in note 32(b)(i).

The further acquisition of 30% equity interest in Shanghai Harvest gave rise to a goodwill of approximately HK$28,212,000.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

40. Acquisition of Additional Interests in Subsidiaries *(Continued)*

(ii) For the year ended 31 March 2009, the Group had further acquired the remaining 10% equity interest in Shanghai Kejin Information Technology Company Limited ("Shanghai Kejin") at a cash consideration of RMB4,000,000 (equivalent to approximately HK$4,545,000). The further acquisition of 10% equity interest in Shanghai Kejin gave rise to a goodwill of approximately HK$4,103,000.

41. Disposal of Subsidiaries

(a) For the year ended 31 March 2010

On 11 December 2009, the Group disposed of its entire equity interest in Artel Limited and its subsidiary, Beijing Joyzone Network Technologic Co., Ltd. (hereinafter collectively referred to as "Artel Group"), to an independent third party for a total consideration of HK$6 and the gain on disposal was approximately HK$2,533,000.

Net liabilities at the date of disposal were as follows:

	HK$'000
Plant and equipment	**63**
Prepayments, deposits and other receivables	**39**
Bank balances and cash	**98**
Other payables and accrued expenses	**(2,835)**
Net liabilities disposed of	**(2,635)**
Release of foreign currency translation reserve	**102**
Gain on disposal of subsidiaries	**2,533**
Total consideration satisfied by cash	**–**
Net cash outflow arising on disposal:	
Cash consideration received	**–**
Bank balances and cash disposed of	**(98)**
	(98)

The subsidiaries disposed of during the year ended 31 March 2010 had no significant impact on the turnover and results of the Group and no cash flow impacts were noted.

Notes to the Consolidated Financial Statements
(For the year ended 31 March 2010)

41. Disposal of Subsidiaries *(Continued)*

(b) For the year ended 31 March 2009

On 2 June 2008, the Group disposed of its entire equity interest in Shanghai Epay Information Technology Company Limited to an independent third party at a cash consideration of RMB300,000 (equivalent to approximately HK$333,000) and the gain on such disposal was approximately HK$2,510,000.

Net liabilities at the date of disposal were as follows:

	HK$'000
Property, plant and equipment	555
Inventories	612
Trade receivables	1,555
Prepayments, deposits and other receivables	326
Bank balances and cash	518
Trade payables	(28)
Other payables	(5,869)
Income tax payables	(10)
Net liabilities disposed of	(2,341)
Release of foreign currency translation reserve	164
Gain on disposal of subsidiaries	2,510
Total consideration satisfied by cash	333
Net cash outflow arising on disposal:	
Cash consideration received	333
Bank balances and cash disposed of	(518)
	(185)

The subsidiary disposed of during the year ended 31 March 2009 had no significant impact on the turnover and results of the Group. The subsidiaries contributed approximately HK$704,000 to the Group's net operating cash flows, paid approximately HK$12,000 in respect of investing activities and no impact in respect of financial activities.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

42. Deemed Disposal of Interest in a Subsidiary

(a) For the year ended 31 March 2010

On 31 July 2009, Philip Riese, an independent third party has subscribed 500 convertible preference shares from Harvest Network, a subsidiary of the Group, which represented 0.05% equity interests in Harvest Network with consideration of US$50,000 (equivalent to approximately HK$388,000).

After the aforesaid deemed disposal, the equity interest of Harvest Network owned by the Group has reduced from 44.81% to 44.76% and no change on the composition of the board of directors of Harvest Network. In this regard, the Group retained control of Harvest Network subsequent to the deemed disposal, and Harvest Network continued to be accounted for as a subsidiary of the Group.

The deemed disposal gave rise to the recognition of a minority interests of approximately HK$302,000, release of goodwill of approximately HK$30,000 and a gain on deemed disposal of approximately HK$56,000.

(b) For the year ended 31 March 2009

On 2 September 2008, Harvest Network, and Dr. Li Zhong Yuan ("Dr. Li"), a director and substantial shareholder of the Company and DLB Harvest LLC ("DLB Harvest") and Jade Capital LLC ("Jade Capital"), independent third parties (collectively referred to as the "Subscribers") entered into a subscription agreement (the "Subscription Agreement") where Harvest Network agreed to issue an aggregate 23,000,000 convertible preference shares (the "Subscription Shares") at US$1 each totalling US$23,000,000 and 4,600,000 warrants (the "Warrants") at total of US$230,000, aggregating to a total consideration of US$23,230,000 (equivalent to approximately HK$181,194,000) to the Subscribers. The Warrants carry the right to subscribe for one convertible preference share at a consideration of US$1 per convertible preference share. Furthermore, the Company has agreed to sell and Harvest Network has agreed to redeem 3,000,000 shares after a share split at a cash consideration of US$1 per share.

Harvest Network has agreed to issue the Subscription Shares and sell to DLB Harvest and Dr. Li, 18,000,000 Subscription Shares and 1,500,000 Subscription Shares respectively at a cash consideration of US$1 per Subscription Share. Furthermore, Dr. Li and Jade Capital, shall subscribe an addition of 1,500,000 Subscription Shares and 2,000,000 Subscription Shares respectively at the consideration of US$1.00 per Subscription Share no later than 31 December 2008.

Notes to the Consolidated Financial Statements
(For the year ended 31 March 2010)

42. Deemed Disposal of Interest in a Subsidiary *(Continued)*

(b) For the year ended 31 March 2009 *(Continued)*

Pursuant to the Subscription Agreement, Jade Capital and Dr. Li shall also subscribe for 4,000,000 Warrants and 600,000 Warrants at the consideration of US$200,000 and US$30,000 respectively. Each Warrant carries the right to subscribe for one convertible preference share at a subscription price of US$1 each at any time during the exercise period, which commences on 31 March 2012 up until 10 years from the date of issue of the Warrants. No Warrants has been issued since the date of subscription to the end of the reporting period.

The following are the major terms of the Subscription Shares:

(1) Holders of the convertible preference shares shall be entitled to a cumulative dividend calculated at 8% per annum on the issue price of each convertible preference share.

(2) The convertible preference shares will be initially convertible to Harvest Network common shares at a conversion price of US$1, subject to anti-dilution provisions, details of which are set out in the Company's circular dated 30 September 2008 (the "Circular").

(3) Holders of the convertible preference shares have a right to convert the convertible preference shares at any time.

The convertible preference shares will be automatically converted in the event of an underwritten public offering equity, details of which are set out in the Circular.

(4) Each holder of the convertible preference shares shall have the right to one vote for each ordinary share into which the convertible preference shares could then be converted. The holders of the convertible preference shares will be entitled to the consent rights of all material aspects of Harvest Network including: change of control or sale, merger or dissolution of the company; declaration of a dividend on common shares; incurrence of indebtedness of more than US$500,000; material change in critical accounting policies; material capital expenditures; amendments of governing documents of the company; redemptions or reclassifications of any of the company's issued securities etc., by reason only of his/her being the holders of the convertible preference shares.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

42. Deemed Disposal of Interest in a Subsidiary *(Continued)*

(b) For the year ended 31 March 2009 *(Continued)*

(5) The convertible preference shares are freely transferable, subject to compliance with applicable securities laws, except that no holder of convertible preference shares will transfer such shares to a competitor of Harvest Network.

The conditions precedent to the transaction are detailed as follows:

(1) Share split

Pursuant to the subscription agreement, the existing and unissued common shares of Harvest Network will be subdivided on the basis of 205,000 common shares for one existing common shares. Upon the completion of the share split, the issued share capital of Harvest Network was increased to 20,500,000 shares.

(2) Redemption of shares by Harvest Network

Pursuant to the subscription agreement, the Company has agreed to sell and Harvest Network has agreed to redeem, 3,000,000 ordinary shares after the share split from the Company at a cash consideration of US$1 each. Upon completion, the issued share capital of Harvest Network was reduced to 17,500,000 shares.

A total of 21,550,000 Subscription Shares had been subscribed as at the end of the reporting period. The shares subscribed had not been converted to ordinary shares as at the end of the reporting period, however, since the Subscription Shares are non-redeemable, and carry the rights that are substantially equivalent to ordinary shares in addition to the preferential dividend, the subscribed convertible preference shares had been regarded as ordinary shares in Harvest Network for the purpose of preparing the consolidated financial statements of the Group. Accordingly, the issuance of such convertible preference shares by Harvest Network increased its total capital to 39,050,000 shares, which resulted in a deemed disposal of 55.19% of equity interest in Harvest Network by the Group.

Pursuant to the Subscription Agreement, the board of directors of Harvest Network will consist of a total of 8 directors, 4 of whom will be Dr. Li and Chief Executive Officer of Harvest Network, appointed by the Company, 2 directors designated by Jade Capital and 2 directors designated by DLB Harvest.

Notes to the Consolidated Financial Statements
(For the year ended 31 March 2010)

42. Deemed Disposal of Interest in a Subsidiary *(Continued)*

(b) For the year ended 31 March 2009 *(Continued)*

All decisions and actions taken by the Board will require the affirmative vote or consent of more than 50% of the directors, and in the case of 50%:50% tie, the vote cast by Dr. Li carries the weight of tie-breaker so long as there has not been a change in leadership. Leadership change refers to when Dr. Li no longer serves in the most senior management position in the Company/Harvest Network or is no longer able to serve in his role as Chairman of the Company and/or Executive Vice-Chairman of Harvest Network.

In this regard, the Group retained control of Harvest Network subsequent to the deemed disposal, and Harvest Network continued to be accounted for as a subsidiary of the Group.

The proceeds from the issuance of the Subscription Shares received amounted to HK$168,090,000 and deemed disposal gave rise to the recognition of a minority interests of approximately HK$84,990,000, release of goodwill of approximately HK$28,107,000 and a gain on deemed disposal of approximately HK$54,993,000.

43. Major Non-cash Transactions

During the year ended 31 March 2010, convertible bonds with liability component and derivative component of approximately HK$6,484,000 and HK$5,214,000 respectively were converted into approximately 27,654,000 ordinary shares of the Company of HK$0.1 each.

Notes to the Consolidated Financial Statements
(For the year ended 31 March 2010)

44. Operating Lease Commitments

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases are payables as follows:

	2010 *HK$'000*	2009 *HK$'000*
Within one year	**1,638**	3,148
In the second to fifth years inclusive	**995**	2,711
	2,633	5,859

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for average terms of one to five years and rentals are fixed throughout the terms of respective leases.

45. Related Party Transactions

Other than the details as disclosed elsewhere in the consolidated financial statements, during the year the Group entered into the following related party transactions:

Compensation of key management personnel (being the directors' emoluments) of the Group are set out in note 14.

46. Events After the Reporting Period

On 13 May 2010, the Company issued two zero coupon convertible notes with nominal value of HK$15,000,000 and HK$20,000,000 respectively and with a term of one year maturity. Subsequently, during May 2010, HK$2,000,000 of convertible notes has been converted into 6,248,047 ordinary shares of the Company.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

47. Particulars of Principal Subsidiaries of the Company

Particulars of the subsidiaries of the Company as at 31 March 2010 and 2009 are as follows:

Name of Company	Place of incorporation/ registration and operations	Class of shares held	Issued/ registered capital	Percentage of interest in ownership held by						Principal activities
				Group		Company		Subsidiaries		
				2010	2009	2010	2009	2010	2009	
Artel Limited *(Note f)*	Hong Kong	Ordinary	HK$10	**60%**	60%	**-**	–	**60%**	60%	Investment holding
Beijing Joyzone Network Technologic Co., Ltd. *(Notes a & f)*	PRC	Registered capital	RMB1,000,000	**100%**	100%	**-**	–	**100%**	100%	General trading by e-commerce
Beijing Universal Medical Assistance Co., Ltd. *(Note b)*	PRC	Registered capital	RMB3,000,000	**62.36%**	62.36%	**-**	–	**70%**	70%	Provision of exclusive nationwide medical assistance services
Beijing Weichang Medical Clinic Co., Ltd.("BWC") *(Notes* c and d)	PRC	Registered capital	RMB2,000,000	**100%**	100%	**100%**	100%	**-**	–	Provision of medical services
CHC Investment Holdings Limited	British Virgin Islands/ Hong Kong	Ordinary	US$100	**100%**	100%	**100%**	100%	**-**	–	Investment holding
China Clinical Trials Centre Limited	British Virgin Islands/ Hong Kong	Ordinary	US$100	**100%**	100%	**-**	–	**100%**	100%	Clinical trials of drugs and devices
China Healthcare Holdings (Hong Kong) Limited	Hong Kong	Ordinary	HK$10,000	**100%**	100%	**100%**	100%	**-**	–	Investment holding
China Healthcare Services Investment Limited	British Virgin Islands/ Hong Kong	Ordinary	US$137,500	**89.09%**	89.09%	**-**	–	**89.09%**	89.09%	Investment holding
China Medicare Limited	Hong Kong	Ordinary	HK$1,000,000	**89.09%**	89.09%	**-**	–	**100%**	100%	Investment holding

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

47. Particulars of Principal Subsidiaries of the Company *(Continued)*

Name of Company	Place of incorporation/ registration and operations	Class of shares held	Issued/ registered capital	Percentage of interest in ownership held by Group 2010	Group 2009	Company 2010	Company 2009	Subsidiaries 2010	Subsidiaries 2009	Principal activities
Guangdong Harvest Network Technology Company Limited *(Note c)*	PRC	Registered capital	RMB10,000,000	**44.31%** *(Note e)*	44.36% *(Note e)*	**–**	–	**99%**	99%	E-commerce distribution of mobile pre-charge etc
Junghua Enterprises Holdings Limited	British Virgin Islands/ Hong Kong	Ordinary	US$1	**100%**	100%	**–**	–	**100%**	100%	Investment holding
Shanghai De Yi Er Investment Management Consulting Co., Ltd	PRC	Registered capital	US$10,000,000	**44.76%** *(Note e)*	44.81% *(Note e)*	**–**	–	**100%**	100%	Investment and consultancy
Shanghai De Yi Network Technology Company Limited	PRC	Registered capital	RMB50,000,000	**44.76%** *(Note e)*	44.81% *(Note e)*	**–**	–	**100%**	100%	Sales of mobile phone usage fees by e-commerce
Shanghai Harvest *(Note b)*	PRC	Registered capital	RMB40,000,000	**44.76%** *(Note e)*	44.81% *(Note e)*	**–**	–	**100%**	100%	E-commerce distribution of mobile pre-charge etc
Shanghai Kejin *(Note c)*	PRC	Registered capital	RMB5,000,000	**44.76%** *(Note e)*	44.81% *(Note e)*	**–**	–	**100%**	100%	E-commerce distribution of mobile pre-charge etc
Shanghai New Everstep Investment Management and Consultancy Limited *(Note a)*	PRC	Registered capital	US$920,000	**100%**	100%	**–**	–	**100%**	100%	Provision of maternal and fetal care service

Notes to the Consolidated Financial Statements
(For the year ended 31 March 2010)

47. Particulars of Principal Subsidiaries of the Company *(Continued)*

Name of Company	Place of incorporation/ registration and operations	Class of shares held	Issued/ registered capital	Percentage of interest in ownership held by						Principal activities
				Group		Company		Subsidiaries		
				2010	2009	**2010**	2009	**2010**	2009	
Shanghai Qiangzhi Biotechnologies Co., Ltd. ("SQB") *(Notes c and d)*	PRC	Registered capital	RMB3,000,000	**100%**	100%	**–**	–	**100%**	100%	Trading of clinical reagents and medical equipments
Shanghai Weichang Investment and Management Consulting Co., Ltd. *(Note a)*	PRC	Registered capital	US$3,350,000	**100%**	100%	**–**	–	**100%**	100%	Investment management and consultancy services
Harvest Network Limited (formerly known as Success Gateway Investments Limited)	British Virgin Islands/ Hong Kong	Ordinary convertible preference shares	US$205 US$21,600,000	**44.76%** *(Note e)*	44.81% *(Note e)*	**–**	–	**44.76%**	44.81%	Investment holding
TechCap BioTech Holdings Limited	British Virgin Islands/ Hong Kong	Ordinary	US$1,000	**100%**	100%	**100%**	100%	**–**	–	Investment holding
West Regent Property Limited	British Virgin Islands/ Hong Kong	Ordinary	US$1	**100%**	100%	**–**	–	**100%**	100%	Investment holding
Wisdom Profit Investment Limited	Hong Kong	Ordinary	HK$10,000	**100%**	100%	**–**	–	**100%**	100%	Trading of clinical reagents and medical equipments
World Success Investments Limited	Hong Kong	Ordinary	HK$10,000	**44.76%** *(Note e)*	44.81% *(Note e)*	**–**	–	**100%**	100%	Investment and consultancy
Nanjing Wangchi *(Note g)*	PRC	Registered capital	RMB1,000,000	**44.76%** *(Note e)*	–	**–**	–	**100%**	–	Payment solution service

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2010)

47. Particulars of Principal Subsidiaries of the Company *(Continued)*

Notes:

(a) Wholly foreign owned enterprises established in the PRC.

(b) Sino-foreign equity joint ventures established in the PRC.

(c) Domestic enterprises established in the PRC.

(d) Through the relevant contractual arrangement, the Group's 100% equity interest in BWC and SQB; 68.46% equity interest in SMHS, are held by PRC residents as individual nominee for and on behalf of the Group.

(e) The Group had the controlling power over the board of directors of Harvest Network, accordingly, Harvest Network and its subsidiaries had been accounted for as subsidiaries of the Group, details are set out in note 42(b).

(f) Disposed of on 11 December 2009.

(g) Acquired on 20 December 2009.

The above list includes the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the assets or liabilities of the Group. To give details of all the other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the year or at any time during the year.

Financial Summary

	Year ended 31 March				
	2010	2009	2008	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Restated)			
RESULTS					
Turnover	**2,776,413**	2,870,719	2,867,570	1,632,961	6,834
(Loss)/profit before tax	**(98,425)**	35,034	(21,909)	(73,372)	(101,863)
Income tax expense	**(386)**	(1,451)	(2,091)	(883)	–
(Loss)/profit for the year	**(98,811)**	33,583	(24,000)	(74,255)	(101,863)
Attributable to:					
Owners of the Company	**(89,695)**	18,806	(25,152)	(73,210)	(96,773)
Minority interests	**(9,116)**	14,777	1,152	(1,045)	(5,090)
	(98,811)	33,583	(24,000)	(74,255)	(101,863)

	As at 31 March				
	2010	2009	2008	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Restated)			
ASSETS AND LIABILITIES					
Total assets	**294,892**	280,623	196,441	198,807	106,650
Total liabilities	**(316,710)**	(218,120)	(241,040)	(225,137)	(69,564)
Total equity	**(21,818)**	62,503	(44,599)	(26,330)	37,086